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**ON**  
**TAXATION**

**HEARINGS**

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1  
2 THE ROYAL COMMISSION ON TAXATION

3 Hearing held in the Centre Court  
4 Room, Exchequer Court of Canada,  
5 Supreme Court Building, Wellington  
6 Street, Ottawa, on Thursday,  
7 the 7th day of November, 1963.

8 COMMISSION :

9 MR. KENNETH LeM. CARTER -- Chairman

10 MR. J. HARVEY PERRY

11 MR. A. EMILE BEAUVAIS

12 MR. DONALD G. GRANT

13 MRS. S.M. MILNE

14 MR. CHARLES WALLS

15  
16  
17 LEGAL ADVISER:

18 MR. J.L. STEWART, Q.C.

19  
20  
21 RESEARCH DIRECTOR:

22 PROF. D.G. HARTLE

23  
24  
25 SECRETARY:

26 MR. G.L. BENNETT

27  
28 \* \* \* \* \*  
29  
30





Ottawa, Ontario  
Thursday  
November 7th, 1963

5039

A/MR/RPS 1

2 ---ON COMMENCING AT 9:30 A.M.

3

4 THE CHAIRMAN: All right Mr. Secretary.

5 THE SECRETARY: Mr. Chairman and Commissioners,

6 this morning the first brief is being presented by the

7 Canadian Universities Foundation. Monseigneur Lussier who

8 is the Rector of the University of Montreal, and who is

9 President of the National Conference of Canadian Univer-

10 sities and Colleges, Chairman of the Canadian Universities

11 Foundation is here this morning to speak briefly, to

12 introduce his colleagues and I would now, Mr. Chairman,

13 like to enter this brief into the record as Exhibit

14 248.

15

16 ---EXHIBIT NO. 248:

Submission of the Canadian  
Universities Foundation.

17

18

19

SUBMISSION OF

20

THE CANADIAN UNIVERSITIES FOUNDATION

21

Appearances: Monseigneur I. Lussier Mr. Charles G. Gale

22

Dr. E.F. Sheffield Mr. F.H. Badgley

23

Dr. G.C. Andrew Mr. J.F. Gillespie

24

Dr. J.A. Corry

25

26 THE CHAIRMAN: Thank you Mr. Secretary.

27 Good morning Monseigneur and gentlemen. So nice of

28 you to come and see us today and thank you very much

29 for the submission which we have already received and,

30 I might say, read with interest. There is no need to

read it again. We will have some questions to put to





1 you. Before doing so, may I introduce to you the  
2 Commissioners whose names appear before them. I would  
3 be grateful, Monseigneur, if you would, on your part,  
4 introduce your associates to us and tell us a little  
5 bit about yourself and add anything or summarize the  
6 submission or say anything else you would care to, sir.

7 MONSEIGNEUR LUSSIER: Mr. President,  
8 Mr. Commissioners, we thank you very much for giving  
9 us the opportunity of coming here and saying what we  
10 have to say on the subject. Thank you for your reception  
11 and as you have asked, I take pleasure in presenting  
12 to you the members of our delegation.

13 On my left Dr. Corry is the Principal of  
14 Queen's University, the Chairman of our Finance Committee  
15 and Vice-Chairman of the C.U.F. On my right, Dr. G. Andrew  
16 who is Executive-Secretary of the C.U.F. and next on  
17 my right Dr. Sheffield who is our Research Officer at the  
18 C.U.F. We have the advantage of having with us members  
19 of the Touche, Ross, Bailey and Smart firm, who are Mr.  
20 Gale, Mr. Badgley and then Mr. Gillespie who act as  
21 expert consultants for this purpose.

22 With your permission, Mr. Chairman, I will  
23 ask Dr. Corry, who is the Chairman of our Finance  
24 Committee to speak on the brief.

25 THE CHAIRMAN: Thank you sir. Dr. Corry?  
26 Stand or not as you please.

27 DR. CORRY: I shall stand. This will  
28 persuade me not to talk too long. Mr. Chairman, members  
29 of the Commission, Monseigneur Lussier has asked me to  
30 speak to the brief this morning, not because I am a greater





1 tax expert than he. In this matter I think we are  
2 probably about equal but because, as he said, I was  
3 Chairman of the Committee under whose supervision the  
4 draft was prepared.

5 I should say that in the course of the  
6 preparation of this brief, drafts were sent to all the  
7 university presidents in Canada, their comments received  
8 and, in the main, incorporated where they seemed relevant  
9 and not repetitive and, therefore, I think it is correct  
10 to say that this brief does represent the views of the  
11 universities of Canada as a whole.

12 Now I thank you for not asking me to give  
13 a dramatic rendering of the brief as a whole. I know you  
14 have read it and I shall merely say a few things by  
15 way of general comment. We do not appear here before  
16 you as beleaguered taxpayers, to which I am sure you  
17 have become accustomed, because the direct taxes on  
18 the universities are relatively minor, so that we are  
19 not here as the figure of the fellow in the cartoon  
20 standing in the barrel, having been stripped of every-  
21 thing else.

22 Our situation is a little different but not  
23 really any better, because we haven't got a barrel at  
24 all in which to stand, unless somebody gives us  
25 money and support, and our concern here, I think our  
26 primary concern is with a tax structure which would be  
27 rather more encouraging to corporations and individuals  
28 to give to universities grants and bequests.

29 It is not, I suppose, quite true to say that  
30 the charitable impulse dies in the breast of the tax-





1 payer as he faces the tax collector, but it is certainly  
2 diminished as the level of taxation gets very high.

3 We don't ourselves feel that we are qualified  
4 to speak in any way with authority about the level of  
5 taxation but we are interested in things that might be  
6 done by way of tax exemptions to encourage gifts and  
7 bequests to the universities.

8 Everyone knows the universities are greatly  
9 in need of increased support from every source from which  
10 they can get it. The need for this is going to become  
11 clearer all the time and we are very hopeful that as  
12 it becomes clear, corporations and individuals would  
13 be disposed to do rather more generously by universities  
14 than in the past. We think, therefore, that modifications  
15 of the exemption provision might very well have some  
16 significant effect for us.

17 Now we are interested in this not merely  
18 because we might get substantially greater support as  
19 a result, we are interested in it because it would  
20 also diversify the support of the universities. It is  
21 extraordinarily important, from the point of view  
22 of universities that want to remain free and do their  
23 work in freedom, that the source of their support should  
24 be diversified and should not be too heavily dependent  
25 on any one source of funds.

26 If the tax structure is so developed that  
27 the private source of support dries up, then the  
28 universities become almost entirely dependent on  
29 Government, which is, I am sure in the minds of every  
30 university person, a very serious matter. More than that,





1 as we have seen in so many other things, if the payment  
2 of some service becomes a Government obligation, the  
3 taxpayer forgets all about it; ceases to take any interest  
4 in it, and all he ever does, the only time he ever thinks  
5 about it is to grumble when he makes his tax return.

6 We don't want this kind of attitude to  
7 develop about higher education. We want not only  
8 diversity of support, we want also a wide range of  
9 interested people who feel they are actually contribut-  
10 ing to what we are doing.

11 Now I think it would be correct to say that  
12 our main and primary concern here is with the first  
13 part of the brief in which we are asking for easing  
14 of exemptions to encourage gifts and bequests. The  
15 other part of it I shan't speak about now beyond saying  
16 in relation to the sales tax, which universities now do  
17 not find is any enormous burden to their resources,  
18 but they find it a very great irritation, a require-  
19 ment. Every university has to have one or more

20 persons who do not do much else but keep track  
21 of these complicated matters relating to sales tax.

22 I believe it is also true that the Govern-  
23 ment is in this similar situation because of the partic-  
24 ular provisions, and we would be inclined to argue  
25 for a very close look at the imposition of sales tax  
26 on the universities because we doubt very much whether  
27 the take is worth the difficulties it seems to cost  
28 both Government and the universities.

29 Now Mr. Chairman that is all I propose to  
30 say. If questions are asked of me, it is quite likely





1 that most of them will be diverted to someone else but  
2 we do welcome the chance to speak to your questions.

3 THE CHAIRMAN: Thank you Dr. Corry. It  
4 would seem to me we might approach this taking it,  
5 I think, item by item and if we address our questions  
6 to you, I understand you will either give the answers  
7 yourself, or pass them over. That is perfectly satis-  
8 factory.

9 The first one appears on page 3 and that  
10 relates to the donation ceiling.

11 We have had a great many representations to  
12 us on this subject. They range all over, as you may well  
13 imagine. Some people recommend that permission to  
14 deduct donations be removed from the Act entirely and  
15 those, of course, like yourself suggest it be increased.

16 I am curious as to whether or not there  
17 is any evidence which supports the desirability of  
18 increasing the ten per cent allowance for persons,  
19 or for corporations. At one time I saw evidence to  
20 support the increase of the allowance for corporations  
21 from five to ten per cent and at that time the Govern-  
22 ment amended the law, but we have received no evidence,  
23 that I can recall and I stand to be corrected on this,  
24 that showed the need for any increase beyond 10 per  
25 cent for corporations, and I think I am correct in  
26 saying for individuals.

27 DR. CORRY: Mr. Chairman, I cannot speak  
28 of personal knowledge on this matter and I doubt if  
29 anyone could give you any fair idea of the magnitude  
30 that might be involved, but what I do know, at second-





1 hand from inquiry, is two firms of chartered accountants,  
2 whose names I would sooner not reveal, have said they  
3 have each year one or two or more clients who get  
4 into the position where they are considering donations  
5 to universities that would go beyond the ten per cent.

6 Now this, as I say, is to me second-hand.  
7 Even if this is true, this is not a judgment about its  
8 scale or scope taken on the whole. Now perhaps I  
9 might ask Mr. Andrew, who I think has one or two  
10 specific instances. I don't know whether he wants to  
11 define them by name, but it will give some idea.

12 DR..ANDREW: Mr. Chairman, I am happy to  
13 do so because when the University of British Columbia  
14 had a financial campaign a few years ago, and I was  
15 the university's representative on the campaign committee,  
16 in a number of cases the donations to the campaign  
17 were limited by the tax provisions.

18 The fact is that this applies in the case  
2 19 of people whose income is quite large so that although  
20 the cases are few, the possible benefactions are  
21 substantial and as far as I can see there would be  
22 no loss to raising the limit because of the fact that  
23 the cases are few and they apply, for the most  
24 part, to people with very substantial incomes but when  
25 they do apply, there are very considerable benefactions  
26 to universities and they don't hurt the structure.

27 THE CHAIRMAN: I would think, though, that  
28 what you say might well be the case if those donations  
29 were, in all cases, out of income. I suspect in  
30 many cases donations that we hear of as being restricted,





1 are those that are made out of capital, out of capital  
2 gains or something beyond income and it would seem to  
3 me if that is the case, there is a very poor argument  
4 to support the deduction from income. If there were  
5 no deduction limit whatsoever, persons who gave --  
6 great philanthropists who gave very large amounts away  
7 from their income, and did not wish to pay taxes, would  
8 have no reason for paying taxes for the rest of their  
9 lives. Am I not correct?

10 DR. ANDREW: If they chose -- all right,  
11 I will accept that, but I would also add that in a  
12 mixed society, that is partly a welfare society, but  
13 basically still a society in which the individual  
14 still has rights, I think that what would happen is  
15 that you would encourage people with very substantial  
16 incomes to act in the public interest on their own  
17 behalf.

18 I personally would welcome such a society  
19 because it is a restraint against the accumulation of  
20 power totally at the Government's core. I will accept  
21 your argument and go one further Mr. Chairman.

22 THE CHAIRMAN: Yes, I don't go with you  
23 the one further at the moment because I don't fully  
24 understand it. What you are saying, I think, is that  
25 if the individual by his action disburses Government  
26 funds, it removes funds from the Government and,  
27 therefore, disperses power?

28 DR. ANDREW: No, I am not saying that. What  
29 I am saying is that if he is acting in the public  
30 interest, he is disbursing money. That removes from





1 Government, an obligation to disburse money from approx-  
2 imately the same source but it does provide for a  
3 diversity of initiative instead of a unity of initiative con-  
4 centrated in Government. That is what I am saying.

5 COMMISSIONER PERRY: I am interested in  
6 your point ---

7 DR. CORRY: May I ask Mr. Gale to speak to  
8 that point?

9 THE CHAIRMAN: Yes, certainly.

10 MR. GALE: Mr. Chairman, the point that  
11 was just discussed, it seems to us that the Government  
12 might lose perhaps 50 per cent of the donation but the  
13 university would get 100 per cent.

14 Presuming that a man gave his entire income  
15 in one year to university, speaking on the question  
16 of revising the limit or doing away with the limit  
17 on donations, I think this question of loss carried  
18 forward is an important one. I feel in my mind there  
19 must be quite a few occasions in the year when  
20 people hold back donations just in case they might  
21 suffer a loss.

22 THE CHAIRMAN: Yes, I think that is  
23 probably quite right.

24 COMMISSIONER PERRY: I was interested in the  
25 way in which you link the removal of the limit and  
26 the treatment of these donations as a business expense.  
27 Could they not still be treated as a business expense  
28 with a limit?

29 MR. GALE: At the moment, donations are  
30 calculated on all income. If there is no income, you





1 don't get any donation allowance.

2 COMMISSIONER PERRY: No. That is not my  
3 point. My point is that if they were treated as a  
4 business expense, then you still could have a limit  
5 in the years in which there was a profit?

6 MR. GALE: Yes.

7 COMMISSIONER PERRY: Oh In the year in  
8 which they became deductible, a limit would then be  
9 enforced?

10 MR. GALE: In other words, yes, you could  
11 have an intermediate stage where under the 10 per cent  
12 rule you would deduct an expense and it would be  
13 allowed.

14 COMMISSIONER PERRY: In the year in which  
15 they became offsetable against income, the limit would  
16 apply?

17 MR. GALE: That is right.

18 THE CHAIRMAN: What you gentlemen have to  
19 say, I believe, you put forward equally for individuals  
20 and for corporations. Am I correct?

21 DR. CORRY: Yes.

22 THE CHAIRMAN: We understand that point.  
23 I believe we have got no further questions on it.  
24 No. 2: "Amend the Estate Tax Act to provide that where  
25 there is power to encroach on the capital of a fund  
26 with the residue of that fund being given to a charitable  
27 institution, the estate be kept open until the life  
28 interest in the fund has terminated."

29

30





B/RPS 1 Is there anything you would like to add  
2 to that? We have examined this already.

3 DR. CORRY: This is what I understand  
4 is set out clearly by the University of Toronto. We  
5 are merely supporting them.

6 THE CHAIRMAN: Thank you.

7 3. "Include in the Estate Tax Act  
8 "explicit provision for treatment of gifts  
9 "to charitable institutions without  
10 "reservation of benefit of income".

11 I was curious why if in fact such an  
12 amendment is not required why one should proceed to  
13 amend the Act.

14 DR. CORRY: Because as a matter of  
15 administration I think our view is that, I have seen  
16 this, where funds have been depended on administrative  
17 practice, that any action they are going to take  
18 in relation to donations -- that people are  
19 considerably nervous that administrative practice  
20 may be changed and changed adversely to them without  
21 them being able to control it or even able to do any-  
22 thing about it. I think we would reach the general  
23 principle that wherever there is a formal established  
24 administrative practice which seems satisfactory to  
25 the Government it should really be affirmed as a  
26 matter of law. This is the practice by which all laws  
27 were made in the first place and we want to assist  
28 the taxpayer to depend on the law as much as possible  
29 and not be open to what some people, at any rate,  
30 call administrative caprice in changing administrative





1 practice from time to time.

2 THE CHAIRMAN: Of course, when you throw  
3 a matter like this into Parliament you take your chances  
4 as to what comes out.

5 No. 4, "Provide in the Income Tax Act for  
6 "deductions of donations to the universities  
7 "of other countries and encourage other  
8 "countries to reciprocate. Amend the  
9 "Estate Tax Act to provide that gifts to univer-  
10 "sities in other countries be exempt from  
11 "estate tax and encourage other countries  
12 "to reciprocate".

13 Right now the process is a little doubtful,  
14 I think, as to whether one may contribute to overseas  
15 universities, universities abroad and obtain a deduction.  
16 Am I correct, or is it absolutely denied.

17 DR. ANDREW: You are correct. There is a  
18 list in the Department of National Revenue which isn't  
19 easily available that states the number of universities  
20 that have, by one reason or another got this privilege.  
21 Actually the question between Canada and the United  
22 States is really the important one because in the U.K.  
23 these allowances are not normally made and their  
24 restriction is a little more difficult but with both  
25 Canada and the United States it should be easy. When  
26 the Friends of X university in the United States are having  
27 some difficulty under the American law it would seem  
28 the time is ripe for initiative to be taken particularly  
29 in respect to the United States where so many of our  
30 graduates are graduates of their universities and vice-





1 versa. With this I think there would be more income to  
2 Canada.

3 THE CHAIRMAN: The Canadians friends of  
4 U.S. universities form some kind of body, I believe,  
5 to accomplish this.

6 MR. ANDREW: And vice-versa.

7 THE CHAIRMAN: And vice-versa.

8 DR. CORRY: The same is done in the United  
9 States. Queen's University has a charitable corporation  
10 based in New York called Friends of Queen's University.

11 MONSEIGNEUR LUSSIER: We have the same.

12 DR. CORRY: We get annually from our  
13 graduates in the New York area funneled through the  
14 Friends of Queen's, pretty important help. The interesting  
15 this is it doesn't come from our graduates scattered  
16 all over the United States as they are because they  
17 don't know about the Friends of Queen's or it isn't  
18 clear enough to them and therefore they don't see any  
19 way in which they may do this. I am confident myself  
20 that if we enlarged our provisions for foreign univer-  
21 sities and showed ourselves open to reciprocal arrange-  
22 ments this country would get the net gain. I think  
23 there is no question about this.

24 THE CHAIRMAN: I think apart from that  
25 it is only just the Canadian graduates of U.S.  
26 universities be encouraged by every means possible to  
27 support their alma maters.

28 COMMISSIONER PERRY: Isn't it true the American  
29 system isn't too bad. My recollection is the Treaty  
30 now provides for deductions for charitable donations.





1 DR. CORRY: This is all provisional on  
2 it being worked through some specially set up organ-  
3 ization.

4 COMMISSIONER PERRY: Let us think of this  
5 more generally: is there any concrete concept of a  
6 university which would apply equally in Cambodia  
7 and Brazil and Hong Kong -- you have people sitting in  
8 Ottawa trying to decide what is the university in  
9 some remote part of the world because someone has  
10 claimed to have made a donation to them.

11 DR. ANDREW: You would have to maintain  
12 a list. It wouldn't be hard to compile a list because  
13 the universities of the world are organized now with  
14 the International Association of Universities, the  
15 Universities of the Commonwealth, the Organization of  
16 A.U.P.E.L.F., Monseigneur Lussier is president,  
17 the Association of Universities partially or wholly in  
18 French. Obtaining the list of approved institutions  
19 wouldn't be so hard.

20 DR. CORRY: These lists could be pretty  
21 reliable because they are prepared by university organ-  
22 izations that are very jealous of letting fly-by-night  
23 places get rated as universities or colleges.

24 THE CHAIRMAN: I think we have to move on  
25 to sales tax. You recommend that universities be  
26 exempt entirely from sales tax. Universities are  
27 now pretty well exempt, I suppose because they are  
28 dealing in materials which are not mainly taxable, I  
29 would think.

30 DR. CORRY: I think, Mr. Chairman, that





1 the problem here could be best set out by giving a  
2 specific illustration. Dr. Andrew has one.

3 DR. ANDREW: The sales tax on materials that  
4 universities use -- I will give you an illustration.  
5 The operating table for small animals . . .

6 DR. SHEFFIELD: I think you skipped one.

7 DR. ANDREW: I am sorry.

8 COMMISSIONER WALLS: Were you going to  
9 enlarge on that?

10 First of all I was just wondering to what extent  
11 you have had an official interpretation in this part  
12 where you claim you get exemption on new buildings, on  
13 material for new buildings but not on the repairs.  
14 The reason I ask is the word "new" building doesn't  
15 appear in the amendment to the Act. I wonder if you  
16 have had an interpretation that repair materials are  
17 not in fact construction materials just the same as it  
18 is in the new buildings because the word "new" building  
19 is not mentioned at all. In looking at the dictionary  
20 construction is the act of fitting together, framing  
21 or building, so I am wondering if you had a ruling on this  
22 or you were personally interpreting the Act. If you  
23 are I think you might possibly be wrong and it would  
24 apply to all building materials whether used for new  
25 buildings or repairs of existing buildings.

26 DR. CORRY: Might I ask our advisers whether  
27 they did. I think we are paying on materials at my  
28 university that are used for repairs. I can't stand  
29 up and say that under oath.

30 COMMISSIONER WALLS: The new section reads:





1 "Where materials have been purchased  
2 "by or on behalf of  
3 "(a) a school, university or other  
4 "similar educational institution for  
5 "use exclusively in the construction  
6 "of a building for that institution."

7 In your brief of course you use the words  
8 "new building" which isn't in the Act and that is  
9 why I questioned it.

10 DR. CORRY: As a lawyer I am sure I could  
11 argue this would include materials used in the revamping  
12 of the building. Whether I would feel very confident  
13 in trying to fit in materials used for the maintenance  
14 of the building, and maintenance often involves some  
15 minor repairs, that you could call that construction --  
16 I wouldn't feel very confident of this. Our argument  
17 goes beyond the definition. We think it isn't worth  
18 all the trouble both to Government and ourselves,  
19 employing additional persons to go through all the  
20 paperwork related to this to find out whether sales  
21 tax is specifically applicable. It doesn't seem to  
22 us to make any real sense. It would be much better  
23 to tidy it up completely and know what is involved in it.

24 . As the law now stands I don't think it is  
25 enormous in a sense of dollars.

26 COMMISSIONER WALLS: You are excluded right  
27 now for all printing that isn't for resale. Universities  
28 have many treatises and documents that are for resale  
29 and therefore it would be an unfair advantage to the  
30 university to be tax-free when the independent printer





1 of like types of documents has to pay tax.

2 DR. CORRY: You might enlarge this to say  
3 we ultimately sell the product that the graduate gives.  
4 We wouldn't argue we were using -- I wouldn't want to  
5 argue in the instance you gave we should be in an  
6 advantage position. It would be the materials that  
7 we use as part of the educational process directly  
8 whether for buildings, for maintenance, for research  
9 or whatever. I can see no case that a university press,  
10 for example, should really get this kind of advantage  
11 over its competitors. I think if this were proposed  
12 there would have to be some examination of the situation  
13 in which the universities did offer things for sale and  
14 apart from tuition these are pretty few.

15 COMMISSIONER WALLS: I note you mention  
16 the fact that the Section on printing and duplicating  
17 machines by which you were previously exempt isn't included  
18 in the new exemptions. However is it not partly  
19 compensated for by the new exemption which deals with  
20 typesetting, plates, cylinder rolls and all these things  
21 that go into reproduction. Whether that will completely  
22 cover your mimeograph  
23 machines or not I don't know. Have you had the opportunity  
24 to test that?

25 DR. CORRY: No, we haven't had a chance  
26 to test that.

27 COMMISSIONER WALLS: I think the reason  
28 it was left out was because it is more all embracing in  
29 this new paragraph.

30 DR. CORRY: Mr. Chairman, the problem we refer





1 to is we spend an awful lot of time testing these things  
2 and we think there isn't really any sufficient gain  
3 for anybody to make it that complex.

4 THE CHAIRMAN: Sometimes it is more complex  
5 to administer an exemption than to administer a tax,  
6 but I suppose from your point of view if the universities  
7 are just exempt that makes it extremely simple.

8 DR. CORRY: It makes it simple for us.  
9 I acknowledge what was said by Mr. Walls, that there  
10 probably would still have to be some exemptions. They  
11 would probably be few, and only in two or three or four  
12 universities across the country.

13 COMMISSIONER WALLS: I think you have a  
14 good point. Previously you were tax exempt automatically  
15 and then now with the new change that has been made you  
16 are no longer tax exempt. Now you have to pay tax  
17 and apply for a rebate and that means you are now putting  
18 out money and having to wait quite a while for refund. There is  
19 that change.

20 DR. CORRY: We don't think work projects  
21 of this kind are particularly useful for our activity.

22 COMMISSIONER MILNE: Just before we leave  
23 that particular point, Dr. Corry, the brief states:

24 "Further increased costs will be incurred  
25 "to finance the sales tax until refunds  
26 "are received".

27 To what degree is that a problem, the  
28 sales tax involved and the length of time it takes to  
29 get a refund?

30 DR. CORRY: In the brief we say everything





1 that we thought might be of some importance. Of course  
2 we can finance this in the area. I don't think it is  
3 too significant really. We don't know yet, I suppose.

4 THE CHAIRMAN: This is a point anyway.

5 DR. CORRY: It is a problem.

6 THE CHAIRMAN: Now we move on to item 6,  
7 tariffs. We don't know much about tariffs on this  
8 Commission. It doesn't seem to be our job. What is  
9 this classification seeking to protect in Canada?

10 DR. CORRY: Mr. Chairman, this was the point on  
which Dr. Andrews has an example and I got a little confused earlier  
12 in asking him to speak early.

13 DR. ANDREWS: Mr. Chairman, the question here  
14 is that the "scientific and philosophical supplies and  
15 apparatus" duties date from 1906 when it was framed and  
16 it really has no contemporary relation to research and  
17 pursuit of new knowledge. It leads to the most curious  
18 and bizarre interpretations. Again an awful lot of  
19 time is spent debating these individual rulings that  
20 are received. The case in point that I was going to  
21 refer to was a small animal operating table which they  
22 used in a variety of biological sciences for examination  
23 of animals and the ruling which was received on this  
24 was that although the operating table wasn't made in  
25 Canada, wasn't of a sort or kind made in Canada it  
26 was operated by a motor and motors are, in fact, made  
27 in Canada so the whole object was held to be of a sort  
28 or kind made in Canada.

29 Quite apart from the stupidity of the  
30 individual rules there is the fact that the whole language





1 is out of date now. Science is no longer philosophy  
2 in the sense this was devised in 1906. It does seem  
3 a shame to badger people and also to use up a lot of  
4 civil servants in just badgering people who in turn have  
5 to develop the capacity and the liking for badgering  
6 civil servants. This is a considerable nuisance.

7 THE CHAIRMAN: You made the article appear  
8 simple. I am inclined to think it served you right for  
9 not having made it yourselves.

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RPS 1 COMMISSIONER WALLS: I was wondering first  
2 of all if it were possible for you to have bought the  
3 table alone, without the motor in the United States, and  
4 attach the Canadian motor to it?

5 DR. ANDREW: Let me give you a better one.  
6 Electron microscopes are ruled to be microscopes.  
7 Microscopes are made in Canada. You know an electron  
8 microscope is an entirely different thing. I suppose the  
9 elementary principle is the same. Now how are we  
10 going to handle that kind of thing?

11 COMMISSIONER WALLS: Have you made any  
12 representations to the Minister of Finance previous to  
13 budget time about these individual items?

14 DR. ANDREW: Yes, individual universities  
15 and universities now collectively have made representations  
16 about this, and I have been privately assured that it's  
17 darn near time the Act was rewritten, but who stimulates  
18 this, unless it is august bodies like Royal Commissions?

19 COMMISSIONER WALLS: I rather think that  
20 an individual item like that, there are so many of  
21 them in the Tariff Act. I have had considerable  
22 experience with such cases. At one time, I believe, you could  
23 get all the tractor through tariff free, except tractor tires  
and also the fact that it has not been deemed to be tax-free  
25 machinery of husbandry unless it has removable parts.

26 If you were able to get it without a  
27 cog on it, it comes in at one rate. If there is a cog  
28 on it, it comes in at another rate; and these are  
29 difficulties that I recognize are hard for people  
30 to interpret that are not using them all the time.





1 I think your only answer is, when you have  
2 a case like that, to present it individually to the  
3 Minister of Finance previous to budget time.

4 DR. ANDREW: Mr. Commissioner don't you  
5 think the language that applied perhaps in 1906, but  
6 which does not apply now should be cleaned up every  
7 now and then for efficient administration?

8 COMMISSIONER WALLS: You may be up against  
9 tariff agreements with other countries -- I don't want  
10 to prolong this -- where the terms that you have already  
11 got have been agreed on. It isn't just as easy as  
12 it looks.

13 DR. ANDREWS: This particular one is not  
14 involved with any other country in the world. This  
15 comes within Canada's own jurisdiction, if we really  
16 want to update our language. I am informed of that.

17 COMMISSIONER WALLS: You have me effectively  
18 slain.

19 DR. CORRY: Mr. Chairman, I don't think we  
20 ought to press too much on this one. I see your  
21 problem, where you say you are not sure it is within  
22 your terms of reference. All that we can ask you to do  
23 is, in your generosity in framing your final recommend-  
24 ation, you might give us a dividend of a recommendation  
25 about this thing.

26 THE CHAIRMAN: Item No. 7. I think. Do you have  
27 anything that you would like to add to the representations  
28 which were made to us by the University Teachers' Association?  
29 They spoke, to the best of my recollection, about books  
30 and gowns, possible courses, although I don't remember.





1 We have had a lot along that line. Is there anything  
2 you gentlemen wish to bring up?

3 DR. CORRY: Mr. Chairman, what we have said  
4 here is that we support the view put forward by the  
5 Canadian Association of University Teachers in principle.  
6 We think we ought not to get into lab coats and gowns  
7 because we know these cannot be thought of by tax  
8 collectors and tax authorities, except in relation  
9 to other kinds of persons in a similar position and  
10 that all we are asking for is the university professors  
11 should be recognized as a professional just as much  
12 as if he were a chartered accountant, sir, or a lawyer  
13 who is practising his profession by appointment to  
14 some corporation or body as distinct from practising  
15 it on his own time, and this is all we are asking for  
16 and I think we can argue at great length he should be  
17 treated as a professional.

18 COMMISSIONER WALLS: I have only one  
19 question on which we have never really had a satisfactory  
20 answer and that is: do the universities, in setting  
21 the salary scale, not take into consideration the further  
22 studying and further conventions that their professors  
23 will have to go to?

24 DR. CORRY: Mr. Chairman, all my people  
25 tell me that I don't. I think every other university  
26 president will tell you the same, that the view of the  
27 staff is that we don't and if you look at the way in  
28 which college salaries lag in relation to high school  
29 salaries, and this can be demonstrated to the hilt,  
30 then it is quite clear that we do not make any provision





1 for this kind of thing, in any effective, reasonable  
2 way.

3 THE CHAIRMAN: No. 8:

4 "Revise provisions of the Income Tax Act  
5 "affecting taxability of full-time students  
6 "and their qualification as dependents",

7 And you have suggested that deduction for  
8 dependents be increased from \$550 to \$1,000 for  
9 dependents who satisfy the conditions now required for  
10 the existing tuition fee deduction and exempt full-time  
11 students who now qualify for tuition fee deduction  
12 from the first \$2,000 of their earned income and deduct  
13 the amount of income earned by a full-time student  
14 in excess of \$1,000 from any claim made by a taxpayer  
15 on the ground that the student is dependent on him.

16 May I first of all say in regards to the  
17 practicability of (b):

18 "Exempt the full-time students who now  
19 "qualify for tuition fee deduction from the  
20 "first \$2,000 of their earned income".

21 I was wondering what kind of a student  
22 it would be who would have sufficient income to benefit  
23 from such a deduction? I cannot think of many who  
24 would be able to take advantage of it.

25 DR. CORRY: Mr. Chairman, I think the  
26 \$2,000 was the figure -- this was probably arrived at  
27 because this now represents substantially what a  
28 student will have to spend in order to go one year  
29 to a university. This really, I think, is how we  
30 arrived at that figure. I think we recognized there





1 were probably very few who would earn this much.

2 DR. ANDREW: It was arrived at for the  
3 sake of registry. \$2,000 is what a person now has  
4 to spend over 12 months in order to attend university  
5 for 8 months, if that is the length of the year.

6 The second thing is that the personal  
7 exemption of \$950 is an amount that quite a few male  
8 students, working in the summer, can exceed and the  
9 tendency, by virtue of the fact that under the existing  
10 law there is an allowance for the father of a  
11 dependent, so that it really does not pay at the present  
12 time to work more than \$950 worth and we would like  
13 to encourage people to work to the limit of their  
14 ability up to the amount that we feel they would have  
15 to spend over a year anyway.

16 That was the thing that would set the  
17 taxable limit.

18 Now there are quite a few people who have  
19 a quasi-professional qualification, going through who  
20 can exceed \$1,000. They can earn somewhere between  
21 \$1,000 and \$1,500. Only commercial fishermen in a  
22 very good season can get up to \$2,000 -- on the West  
23 Coast, not on the East Coast.

24 What we are trying to do is to encourage  
25 as much self-reliance as possible. I speaking warmly  
26 on the subject, being a parent of three children at  
27 university at the moment, and on the encouragement of the  
28 male student to earn as much as he can, but to give  
29 no concessions, as you will notice, to the parent  
30 because his exemption declines from the \$1,000 as the





1 students' claim rises above the \$1,000, so that it really  
2 is an incentive proposal and a recognition of the increase  
3 in cost of higher education, quite apart from what a  
4 person foregoes by going to university.

5 DR. CORRY: Mr. Chairman, I am sure you  
6 have heard a great deal here about the effects of the  
7 tax system dampening initiative. This is just another  
8 instance. If he only earned \$950, and he could have  
9 earned \$1,300 or something, you have made it less worth  
10 his while to try. Then, on the other hand, he comes  
11 around and wants a scholarship or bursary; wants public  
12 support which he might not even have got around asking  
13 for if it were made more attractive to him to earn  
14 as much as he possibly could.

15 DR. ANDREW: There is also the business  
16 of administration convenience, because at the present  
17 time fees can be claimed. They have to be claimed by  
18 producing certificates. Now the amount of fees that  
19 can be claimed are only part of the total fees that  
20 the universities charge so that the university fees  
21 officers are all constantly shuffling fees to arrive  
22 at a statement of the claimable fees that can be passed  
23 on to the parent to get a rebate.

24 Now we have been under pressure to ask  
25 for an increase in the amount of fees that can be  
26 charged. We have resisted that in the hope that we  
27 can achieve the upward exemption for the self-employed  
28 student and have a depressing effect, as he goes up,  
29 have a depressing effect on the claims of the parents.  
30 Actually for the better-off, this recommendation would





1 lessen the amount of well-being of a well-to-do parent.  
2 It would increase the exemption and the capacity to  
3 pay of the total family unit in an economically less  
4 favoured group. That implication can be explored quite  
5 considerably.

6 THE CHAIRMAN: This would have the effect,  
7 of course, of having this same result which would be  
8 accomplished now by increasing deduction for fees,  
9 which doesn't strike me it would be very fair.

10 DR. ANDREW: No. I am sorry, I don't  
11 follow you.

12 THE CHAIRMAN: What I am saying is that if  
13 instead of a \$2,000 exemption, the student were  
14 permitted to deduct the full amount that he paid  
15 to the university including his board, about the same  
16 result would be achieved would it not?

17 DR. CORRY: Mr. Chairman, part of the  
18 difficulty is that many students do not pay board to the  
19 university. Others pay. This is a problem.

20 THE CHAIRMAN: You are quite right.

21 COMMISSIONER PERRY: Mr. Andrew, I wonder  
22 if I followed you completely. Wouldn't the better-off  
23 parent find his position improved under (a) by a  
24 simple increase to \$1,000 in his exemption for a dependent  
25 child attending university?

26 DR. ANDREW: He would. Simply (a) the  
27 answer is yes. Taking (b) into consideration, and  
28 in particular taking (c) into consideration, the better-  
29 off parent -- let's put it this way: the parent  
30 who at the present time can afford to provide employment





1 for his own child and then can claim \$550 for fees, he  
2 is better-off under the (c) provision. I believe at  
3 this point I have to go to our financial advisers,  
4 but I am informed that he is better-off under the  
5 existing regulations than he would be under the suggested  
6 regulations.

7 DR. CORRY: Mr. Chairman, at this point  
8 I think it is Mr. Badgley who can speak on this. I  
9 should say for Mr. Andrew that he did have the artistic  
10 conception of this, but the illumination has partially  
11 blinded him.

12 MR. BADGLEY: Mr. Chairman, the basis of  
13 this thought is thinking of the family as a unit rather  
14 than as the father in particular and the son in  
15 particular. To the father it would be a great deal  
16 of benefit to increase the exemption claimed by him  
17 to the maximum. However, if we consider the son also,  
18 he could earn up to \$2,000, for which he would receive  
19 one hundred cent dollars. Whereas, if he earned under  
20 \$1,000, the parent would claim \$1,000 exemption which  
21 would be worth to him, as an example, 30 cent dollars,  
22 if he was in a 30 per cent tax rate.

23 Therefore, as the student's earnings increased  
24 from \$1,000 to \$2,000, the net income to the family  
25 would increase by the \$1,000 that the student earns  
26 and would be decreased by the \$300 extra tax that  
27 the parent would have to pay.

28 COMMISSIONER PERRY: I can follow that.  
29 I am thinking of the case of the parent and child, the  
30 child at the present time not earning any money and the





1 parent paying full university expenses and this is  
2 continuing to be the situation. As I see that situation,  
3 the parent now is able to deduct \$550 for that dependent.  
4 In the future he will be able to deduct \$1,000 for  
5 that dependent. That's the simple case I have in mind.  
6 It isn't an unlikely case, after all. I have a child  
7 attending university.

8 DR. ANDREW: It is not an unlikely case at  
9 all where the person attending university is not working  
10 and, actually, now the opportunity to work is becoming  
11 less frequent than it was a few years ago and so in  
12 that case I would switch my argument there: irrespective of  
13 the income of the parent, that the opportunity to  
14 work, becoming less popular, some greater relief would  
15 seem to be appropriate to the parent .

16 COMMISSIONER PERRY: I am not challenging  
17 the philosophy here. I am just trying to understand  
18 the proposition.

19 DR. ANDREW: My first case was based on  
20 children who are working.

21 COMMISSIONER PERRY: (a) applies where the  
22 child is not working and that would give an increase  
23 in the allowance?

24 DR. ANDREW: That is right.

25 THE CHAIRMAN: Anything else on that? If  
26 not, moving on to item 9 which recommends that the  
27 law allows deduction of tuition fees paid by part-time  
28 students.

29 COMMISSIONER WALLS: I notice you only make  
30 that applicable to higher education. Should that not





1 apply to vocational training and perhaps to someone  
2 who has been forced to leave high school before  
3 graduation?

4 THE CHAIRMAN: How about dancing lessons?  
5 Mandolin lessons?

6 DR. CORRY: Mr. Chairman, I think when we  
7 finished this we realized we had not made ourselves  
8 very clear by just saying "higher education". There  
9 was now a change in the use of these terms going on  
10 and higher education used to mean university and college  
11 only. This is now being talked of, in many quarters,  
12 as everything above high school as higher education.  
13 I think in this sense we really mean to make this  
14 recommendation that -- perhaps the right word to use  
15 there would have been "post-secondary education". I  
16 don't think there is any argument -- to me there is  
17 no argument that to restrict this kind of advantage to  
18 a university student and to deny it to the fellow  
19 who, because he has not got the ability to go to  
20 university but is, nevertheless, trying to improve him-  
21 self in an institute of technology, I see no reason  
22 why he should be put in a less advantageous position  
23 and this was not our intention.

24 COMMISSIONER WALLS: Don't you run into  
25 the definition of "part-time"? I can appreciate some  
26 of your vocation courses at university take up a great  
27 deal of time, but there are other cases where it's  
28 just a night class and night classes can embrace all  
29 sorts of things. Just like the Chairman said, dancing,  
30 and so on. Where would you draw your line as to part-time?





1 DR. CORRY: I think it would be -- subject  
2 to what my other colleagues here will say, I think the  
3 only place to draw the line would be that he is on  
4 part-time registration and working at a course which  
5 leads to a degree or a diploma, providing he is successful  
6 in getting that.





/RPS

1 Now, you could ask me what diploma means:  
2 and this I am afraid would also give some trouble.

3 THE CHAIRMAN: It seems to me this would  
4 result in a pretty large hole in our tax base and  
5 would require a great deal of careful definition. I  
6 can see this very clearly.

7 DR. CORRY: I am in favour of higher  
8 education. I wouldn't favour this for fees in a  
9 dancing school.

10 THE CHAIRMAN: You find that the people  
11 sponsoring them could produce pretty good arguments  
12 on that.

13 DR. CORRY: This, Mr. Chairman is what  
14 exists.

15 COMMISSIONER WALLS: They get diplomas in  
16 it.

17 THE CHAIRMAN: Any further questions? Mr.  
18 Walls?

19 COMMISSIONER WALLS: No.

20 THE CHAIRMAN: Dr. Corry, we are very  
21 grateful indeed. You have brought something of interest  
22 to us and something which we should certainly consider  
23 and I assure you that we will do so. We thank you  
24 therefore indeed for your help today. Is there anything  
25 that you would like to say to us?

26 MONSEIGNEUR LUSSIER: I just want to thank  
27 you for having heard us as you have done. I think that  
28 the philosophy has been very helpful to us and I might  
29 say for myself many of our recommendations mean little  
30 to Government but we feel it means much to the individual,





1 the psychological benefit of such deductions is very  
2 very great and this should be taken into consideration.  
3 Thank you very much Mr. Chairman.

4 THE CHAIRMAN: Thankyou, sir. We will  
5 break for 10 minutes.

6  
7 ---A SHORT RECESS.

8  
9 ---FOLLOWING THE SHORT RECESS:

10  
11 THE CHAIRMAN: Yes, Mr. Secretary?

12 THE SECRETARY: Mr. Chairman and Commissioners  
13 the next submission is being presented by the Canadian  
14 Association of Real Estate Boards. Mr. S.L. Melton  
15 will introduce his colleagues and speak to the brief  
16 which I now enter into the record as Exhibit 249.

17  
18 ---EXHIBIT NO. 249: Submission of the Canad-  
19 ian Association of Real  
20 Estate Boards.

21 SUBMISSION OF

22 THE CANADIAN ASSOCIATION OF REAL ESTATE BOARDS

23 Appearances: Mr. F.N. McFarlane Mr. Bert Katz  
24 Mr. R.P. Quain, Jr. Mr. D.R. Wymark  
25 Mr. S.L. Melton Mr. H.P. Langer  
26 Mr. P.H. McKeown

27  
28 THE CHAIRMAN: Thank you, Mr. Secretary.  
29 Good morning Mr. Melton and gentlemen. I will introduce  
30 to you the Commissioners whose names appear before them.





1 I would be grateful if on your part you would introduce  
2 your people to us. We have read your submission with  
3 interest. There is no need to do it again. We would  
4 like to discuss it with you and raise a few questions.  
5 If there is anything you wish to tell us in amplification  
6 or summarizing it we would be pleased to hear it.

7 MR. MELTON: Thank you, Mr. Chairman. I  
8 would like to introduce the members of the Ottawa Liaison  
9 Committee. On my left, Mr. McKeown, the Chairman  
10 of the Committee. Next to him Mr. Bert Katz, a member  
11 of the Committee; Mr. Roy Wymark, a member of the  
12 Committee, Mr. H.P. Langer. A member of the Committee on my

Far right, McFarlane, a member of the Committee and on my immediate  
14 right Mr. R.P. Quain, Jr., a lawyer and chartered  
15 accountant who has been retained by the Association  
16 as our Technical Adviser.

17 THE CHAIRMAN: What do you call the  
18 Committee?

19 MR. MELTON: The Ottawa Liaison Committee.  
20 This is a Committee of the Canadian Association of  
21 Real Estate Boards. The Association represents ten  
22 Provincial associations and seventy-seven local  
23 associations and over 13,500 members. I have a little  
24 outline summarizing the points of the brief but maybe  
25 if you have read it it may not be necessary to go into  
26 it.

27 We omitted an index of the brief and I  
28 would make the suggestion in the upper left-hand corner --  
29 we cover five main subjects. One is capital gains on  
30 page 16; two is lump sum receipts on page 21; three is





1 advance rulings, page 24; four is valuing property,  
2 page 38A and five is non-resident investments, page 51.  
3 Each of the five topics of discussion concludes with a  
4 submission and recommendations suggesting what the  
5 Association feels should be done about the particular  
6 problem raised under each heading.

7           You will note the first 16 pages of the  
8 brief deal with the Canadian Association and its object-  
9 ives and undertakings. I wonder would you want me to  
10 go into detail or would you rather ask questions?

11           THE CHAIRMAN: I think we would prefer to  
12 ask questions on your submission. Canada ranks second  
13 highest in the number of persons owning private  
14 dwellings. Would it be the United States that ranks  
15 first or who ranks first?

16           MR. MELTON: I believe the United States  
17 or Sweden -- the United States.

18           THE CHAIRMAN: I suppose our rank in that  
19 regard is really because of the relative prosperity  
20 of Canadians. Are there any other reasons you can  
21 think of? Does the Committee have any other opinion?

22           MR. MELTON: I would have one, maybe other  
23 members of the Committee would also -- both in the  
24 United States and in Canada there is a certain amount  
25 of individualism and I think private ownership is one  
26 of the characteristics of individualism and I think  
27 that is why we in North America have such a high  
28 percentage.

29           MR. KATZ: Was your question why the  
30 United States is running ahead of Canada?





1 THE CHAIRMAN: No, my question was what  
2 reasons are there that Canada ranks as high as it does?  
3 I think I have the answer probably. I am a little  
4 surprised to find Canadians seem to live in the same  
5 home no longer than five or six years and then relocate  
6 their residences. I don't suppose that means necessarily  
7 sell their homes. I suppose if they move from one  
8 apartment to the other they come in that category.

9 MR. MELTON: There is quite a movement in  
10 the ownership of homes. We find that on the average  
11 it is five years that the owners -- it is usual to  
12 move if the family is growing and then they move back  
13 to smaller accommodation as the family decreases.

14 THE CHAIRMAN: I knew the real estate  
15 business was very good, but I didn't realize it was  
16 quite that good. Shall we move to page 16, capital  
17 gains. Is there anything else before this?

18 Your conclusion with regard to that is that  
19 codification of principles of law applicable would  
20 contribute in a substantial way to greater clarity,  
21 simplicity and effectiveness of the Act and administration.  
22 I would have thought this is not correct. It seems  
23 to me that such a codification of principles would be  
24 a rather difficult matter, probably not impossible,  
25 but I would assume that what you mean is that certain  
26 decisions would be laid down and if a transaction  
27 conformed to the tests it would be taxable or non-  
28 taxable in accordance with the tests. Is that what  
29 you refer to?

30 MR. MELTON: Could I refer the question to





1 our adviser, Mr. Quain?

2 MR. QUAIN: Yes, Mr. Chairman, I would  
3 think that would be correct. In England, I believe  
4 there was a Royal Commission appointed to study capital  
5 gains and profit and they did come up with a principle  
6 that called for badges of trade. These have been  
7 referred to in quite a few of the Canadian tax cases.  
8 I don't think our Supreme Court of Canada has yet  
9 approved of these badges of trade, but they might be  
10 a helpful starting point if one were to codify the  
11 principles.

12 THE CHAIRMAN: What I have found those  
13 countries do is have a very simple rule that if you sell  
14 real estate within a certain length of time it is deemed  
15 to be a revenue transaction. However it may well be  
16 that one could set down certain matters upon which  
17 the test - which would establish it.

18 I would think that if it were possible  
19 when they came to write the recent law in the U.K.  
20 with respect to taxation of speculative profits they  
21 might have used those tests rather than time tests.  
22 Do you know why they didn't?

23 MR. QUAIN: No, I don't know, sir. I  
24 think the time tests might be helpful in that one of the  
25 difficulties is uncertainty of whether a particular  
26 profit is going to be taxable or not. For example  
27 an individual who makes a single isolated large purchase  
28 of vacant real estate nonetheless will be taxed if he sells  
29 it very quickly, but if after he buys it someone comes  
30 along and says we have a developer here who would like





1 to develop this land, what price do you want, he is  
2 apt to say I am not interested in selling. If I sell  
3 now I am apt to pay taxes. I will hold it for say  
4 five years. This tends to stagnate the economy to a  
5 certain extent.

6 THE CHAIRMAN: You would have the advantage  
7 of greater certainty by virtue of time tests, but on  
8 the other hand you would have a number of transactions  
9 being brought into taxes which might not now be  
10 taxed.

11 MR. QUAIN: Yes, I suppose that is possible,  
12 Mr. Chairman.

13 THE CHAIRMAN: People who had a one-time  
14 transaction, perhaps who bought some property to do  
15 something with it and changed their minds and then  
16 sold within a short time would be taxed. Would you  
17 sooner suffer these penalties to secure greater certainty?

18 MR. QUAIN: I would think that the Assoc-  
19 iation feels that way, Mr. Chairman.

20 COMMISSIONER PERRY: What the Chairman is  
21 saying the time test gives certainty that any trans-  
22 action within the time period will be taxed leaving  
23 the uncertainty as to how the transactions outside  
24 that time period will be taxed, so you achieve this  
25 degree of certainty at some cost.

26 MR. QUAIN: Perhaps with respect to real  
27 estate if they said holdings after a certain period  
28 wouldn't be taxed.

29 COMMISSIONER PERRY: Everyone has said  
30 that to my knowledge. There has certainly been quite





1 an agreement on this.

2 THE CHAIRMAN: Most European countries have  
3 got, mostly the time test and it generally works the  
4 way Mr. Perry says it does.

5 MR. QUAIN: It worked only against the  
6 taxpayer. It wouldn't work in his favour.

7 COMMISSIONER PERRY: This is the kind of  
8 certainty he would get.

9 MR. QUAIN: I wonder if that is the right  
10 kind of certainty to have?

11 COMMISSIONER PERRY: I am suggesting this  
12 is the way it ended up in other countries.

13 MR. KATZ: Could it be perhaps it would  
14 only be one of the criteria. It isn't only time tests,  
15 but certainly a matter of definition. I don't think  
16 that only time should be the consideration, but it  
17 should certainly be one of the tests, I think.

18 COMMISSIONER WALLS: On page 17 I was  
19 rather intrigued with your statement that between the  
20 buying and the selling of a property if they carry out  
21 any improvements or repairs on the property the sale  
22 of the property would be considered as business revenue  
23 rather than capital gain. Have you any legal precedent,  
24 have you any cases you can quote where that actually  
25 happened?

26 MR. QUAIN: No, I don't, sir. I think  
27 probably what the person who wrote this was thinking about  
28 was the idea of the carrying on of business and the  
29 more businesslike you are in your dealings with a  
30 particular property the more apt you are to be considered





1 as having carried on a business. I am not sure that it  
2 necessarily follows though.

3 COMMISSIONER WALLS: I never heard of it,  
4 and it seemed to be quite specific in your brief.

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6 COMMISSIONER PERRY: I would think if the  
7 law is on the basis of taxing people who are carrying  
8 on business on real estate transactions it would be  
9 directed to people who are those who are admittedly  
10 and professedly in business in real estate transactions.  
11 If there weren't some time tests any individual could  
12 go into your line and claim that he was merely making  
13 an investment. You would find where you are taxable  
14 in full on any gains that you make in property trans-  
15 actions, even as a broker, he would be exempt entirely.

16 I suppose in fact it really doesn't work  
17 out that way. You really yourselves are not  
18 working in competition with that kind of business, with  
19 that kind of person. Your livelihood depends on that  
20 kind of person being active. Somewhere along the  
21 line there has been a miscarriage of logic.

22 THE CHAIRMAN: These people in their  
23 professions, of course, are operating mostly on commissions,  
24 I suppose, which are, of course, taxable, completely  
25 taxable. When they get into real estate transactions  
26 I suppose if you are professional in that area there  
27 is an assumption that it is more in the nature of a  
28 trade than if you are not a professional in the business.

29 Of course you find you are paying more  
30 taxes on your real estate transactions than your clients.





1 MR. MELTON: Yes, you are correct. My  
2 understanding is we in the business, if we actually  
3 trade in real estate we are taxable on any profit. Our  
4 main concern here is more with our clients or  
5 investors. I think one problem is the uncertainty  
6 of whether again is taxable or not taxable and it causes  
7 confusion and doubt in the mind of investors and  
8 clients, and also it is very time-consuming. There  
9 are a lot of cases before the courts because of the  
10 uncertainty.

11 It is natural if a person can see any  
12 chance of escaping paying taxes he will and if there  
13 appears to be any doubts he will try and clear it up  
14 first. Our thinking was if we could get some codific-  
15 ation or clearing up that the taxpayer would know  
16 exactly where he stood. Also we feel it is not good  
17 when tax considerations become the prime reasons of  
18 whether a person should buy or sell. We don't think  
19 that the tax consideration should be the sole reason  
20 why an investor should decide to hold a property or  
21 sell a property.

22 COMMISSIONER PERRY: Why is it the sole  
23 reason? The person isn't going to be subject to anything  
24 worse than tax. He isn't going to be hung, drawn or  
25 quartered?

26 THE CHAIRMAN: It is only money.

27 COMMISSIONER PERRY: It is only money.  
28 There are all kinds of people paying money every day  
29 on their full income. Is there anything peculiar  
30 about this kind of activity which makes it so very





1 sensitive?

2 MR. MELTON: I think it is primarily the  
3 uncertainty.

4 COMMISSIONER PERRY: At the very worst they  
5 are only going to have income tax to pay.

6 MR. KATZ: Possibly some people would rather submit  
7 to the other things you mentioned rather than pay  
8 taxes. I think what we are getting at here is it is  
9 a matter of intent and it is very difficult to read a  
10 person's mind, an investor's mind. The main thing  
11 we want is some certainty and some way of determining  
12 in advance whether a client is actually subject to tax.  
13 In some actual cases it is absolutely impossible to  
14 know the person's intention and he could be taxed,  
15 perhaps, unjustly by whatever criteria are presently  
16 used.

17 I think the main thing we want is more  
18 certainly with regard to determining in advance whether  
19 a person is taxable with not only time but other consider-  
20 ations being also part of the determination.

21 COMMISSIONER WALLS: We had another suggestion  
22 put before us the other day that all real estate trans-  
23 actions should be subject to capital gains tax except  
24 property on which the owner resides or occupies.  
25 What do you think of that?

26 THE CHAIRMAN: And farms, I presume?

27 COMMISSIONER WALLS: Yes, I was interpreting  
28 it as such.

29 MR. KATZ: And farms?

30 COMMISSIONER PERRY: Mr. Walls is a farmer.





1 COMMISSIONER WALLS: I didn't frame it in  
2 that way.

3 THE CHAIRMAN: As I read this I am extremely  
4 hopeful that this is the solution we were looking for.  
5 This comes to us not fresh at all. We have heard many  
6 times that there was a need for greater clarity in the  
7 law, particularly in this area. This seems to be the  
8 area more people are concerned about than anything else,  
9 transactions tend to be big and one doesn't know the  
10 ruling in advance. It would seem to me quite fair  
11 to say to you gentlemen, you know your business better  
12 than anyone else, where should the line be drawn?

13 You are in the business. Who could draw  
14 the line better than you could draw it?

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1 THE CHAIRMAN: What is a sensible dividing point  
2 between the type of transaction that should be taxed  
3 and the type of transaction that should not be taxed?  
4 If you have got any thoughts as to what the codification  
5 should be, we would be delighted to have those thoughts.  
6 They are not easy to find. The principles are not  
7 easy to find.

8 COMMISSIONER PERRY: I would like to ask, Mr.  
9 Chairman, if it is fair to read these several pages as  
10 meaning your clients are only likely to go ahead with  
11 a venture if the certainty is they won't pay taxes,  
12 because one can easily achieve certainty by saying all  
13 such transactions will be subject to tax. I doubt if  
14 this would achieve the stimulus to the economy which  
15 you suggest would come from certainty, so I just read  
16 them as meaning, and I am not putting words in your  
17 mouth, but this is the way I interpret the words here  
18 as meaning that the kind of certainty that you want is  
19 that a transaction will not be taxed? I am not trying to  
20 be unfair; it is just how your words struck me.

21 MR. McFARLANE: I suppose part of the answer  
22 to this would be the frequency that an investor might  
23 be faced with a profit. It doesn't occur every day and  
24 he may be astute once in many transactions, but if he  
25 does take that profit in a particular year, and it is  
26 classed as income additional to other sources of income,  
27 then of course the tax penalty is heavy, with it all  
28 consolidated in one year.

29 COMMISSIONER PERRY: I agree. This comes up under  
30 your next point. There is a lump sum problem here. I





1 think there is also a problem that quite often the  
2 revenue people are going after the gains and closing  
3 their eyes to the losses, but I don't think it would be  
4 difficult to achieve certainty. It might not be the kind  
5 of certainty you would like or would achieve the purpose  
6 that you are after.

7 MR. QUAIN: I think we realize taxes have to  
8 be paid. I think our problem sir is getting the certainty.  
9 How the certainty is achieved, I think -- we do feel  
10 there should be certainty and ~~either~~ the type of thing  
11 adopted as was suggested by Mr. Walls. We feel this could  
12 be contained in the recommendation of the Commission.  
13 We feel it is essential to have this certainty.

14 THE CHAIRMAN: It is very easy to make a tax  
15 certain, if one forgets about equity. One has got to  
16 have some measure of equity at the same time as  
17 certainty. What is the fair treatment under the  
18 circumstances? It would seem to me that certainty is a  
19 problem, and I think it is your problem, but it is our  
20 problem too.

21 COMMISSIONER PERRY: I think it is probably  
22 only fair to say that no country has achieved certainty.  
23 Even in the American jurisprudence in the grey area  
24 it reads very much like our own all the badges of trade  
25 examined. They are not examined as badges of trade but  
26 the element of intention is quite important within  
27 their concept, and in determining whether a capital gain  
28 has been made or whether the person has been carrying  
29 on business. It is just about exactly the same situation  
30 as we have here so I think as the Chairman says the





1 price of absolute certainty would have considerable  
2 inequity.

3 THE CHAIRMAN: However, it may be possible  
4 to devise the rules which will provide greater certainty  
5 and at the same time maintain some kind of a reasonable  
6 line between one type of transation and the other; the  
7 kind that should be taxed and the kind that should not  
8 be taxed and if, after you leave us, you have got any  
9 further thoughts on it, we will be very glad to receive  
10 anything you care to send in to us.

11 MR. QUAIN: On capital gains -- are we now  
12 leaving capital gains?

13 THE CHAIRMAN: We are now leaving capital  
14 gains, yes.

15 MR. QUAIN: I was going to mention three cases  
16 of the Supreme Court which, when one reads them, makes  
17 one realize how difficult it is to decide how important  
18 intention is. You may have been referred to them  
19 before. There is the Regal Heights case of 1960, Dominion tax  
20 cases, page 1270 and their secondary intention was  
21 spoken of and given weight, which would indicate  
22 intention is a fairly important element if you are  
23 going to even consider secondary intention. And then we  
24 have Irrigation Industries case, where the company  
25 bought shares and sold them within six months and made  
26 quite a profit, and the profit was held not to be  
27 taxable, and Mr. Justice Martin, when delivering that  
28 decision gave the opinion that the intention was not  
29 all that important because it was so difficult to read  
30 the mind of the investor, and it is a subjective test,





1 one that the courts had great difficulty in applying  
2 and he, therefore, almost eliminates the idea, or at  
3 least certainly plays it down. Then in the Osler  
4 Hammond case in the 1963 Dominion Tax cases at page  
5 1119 there was an appeal from the Exchequer Court in  
6 which the Exchequer Court judge had given great  
7 importance to the intention of the taxpayer in that  
8 case for an isolated transaction. Once again and on  
9 appeal to the Supreme Court of Canada, the appeal was  
10 dismissed so that these three cases do indicate the  
11 problem of a particular person advising the taxpayer  
12 as to whether he will be taxed or not.

13 THE CHAIRMAN: So ruling out intention, what  
14 have you got left?

15 MR. QUAIN: Frequency would be one thing, Mr.  
16 Chairman.

17 COMMISSIONER PERRY: Isn't it six badges of  
18 trade?

19 MR. QUAIN: Yes.

20 COMMISSIONER PERRY: They really weren't very  
21 new. They were inherent in all the cases and they  
22 simply dragged them out and listed them.

23 THE CHAIRMAN: I suppose if they contradicted  
24 each other you would have to develop some kind of a  
25 point system as to the weight to be applied, to achieve  
26 certainty.

27 MR. QUAIN: As you say, it is pretty difficult  
28 to achieve absolute certainty. That might be an idea.  
29 I suppose a judge, faced with these principles, might  
30 ask: Am I to weigh these in the order that they are





1 referred to? Did the legislature intend that I was to  
2 give priority to, let us say frequency is mentioned first.  
3 Am I to give that the most priority? Perhaps it would  
4 be well to state whether or not that is the intention.  
5 They might say not necessarily in order of importance,  
6 something of that sort.

7 THE CHAIRMAN: If you have got half a dozen  
8 matters to be taken into consideration, it is very  
9 unlikely that two people will give the same weight to  
10 each one of those half dozen points.

11 MR. QUAIN: Exactly. Perhaps examples could  
12 be given, simple examples. The restatement volumes --  
13 the restatement of the American Law gives principles,  
14 and then they give examples and these are most helpful  
15 in understanding what they intended. How they intend  
16 the principles to work out.

17 COMMISSIONER PERRY: Perhaps we are missing a  
18 chance, Mr. Chairman, to inquire from these well-informed  
19 people as to the effects of the present uncertainty. It  
20 is suggested here there are projects that are being held  
21 up. Are there many of these? Are these large projects?

22 MR. LANGER: Mr. Chairman, yes, I think there  
23 are quite a few. I am aware of a very large tract of  
24 land in Metropolitan Toronto, which has been passed by.  
25 It is not being sold simply because of the uncertainty  
26 of the owner in knowing whether on the sale of this  
27 parcel of land he would be taxed or not. It is being  
28 farmed, which is not the highest and best use but that  
29 way the owner can achieve real estate taxation as farm  
30 land, and I think a great deal of money is lost to the





1 municipality, to the government and in general I think  
2 it is a drawback not to have this land developed and  
3 lying, to all intents and purposes, fallow.

4 I think there are quite a number of those  
5 instances. One I am particularly aware of: This very  
6 large parcel of land, very valuable land -- or it could  
7 be very valuable land yet the owner would not dispose  
8 of it for the very simple reason he doesn't know whether  
9 he would be taxed on it or not.

10 THE CHAIRMAN: Has he tried to get an answer  
11 either from his professional adviser or the Tax  
12 Department or both?

13 MR. LANGER: I am not that closely connected  
14 with it to say whether he has tried. I am quite sure  
15 we could not give him an answer if he would ask us. We  
16 would not attempt to give him an answer.

17 THE CHAIRMAN: In practice in my profession  
18 I have had similar instances to the one you quote and  
19 generally I have been able to obtain from the  
20 Department a satisfactory reply sufficient for the  
21 transaction to proceed. I can think of one very  
22 large one at the moment. It took me no longer than a  
23 week to get an answer.

24 MR. LANGER: I can only assume in this case  
25 perhaps the inquiry has been made and it was not  
26 favourable. This is strictly an assumption on my part.

27 MR. KATZ: Mr. Chairman, I will go further  
28 than that. I know an instance where a client obtained  
29 the so-called best advice in the country and  
30 subsequently has been taxed. They have been advised





1 to the contrary and subsequently have been taxed. Once  
2 that has happened, you can see that these people are  
3 not going to take this sort of chance again. And there  
4 are cases in the city which correspond to the one Mr.  
5 Langer was mentioning; pieces of property which are  
6 not being developed for that very reason and in some  
7 cases it poses some problem to the municipality because  
8 the services must go around the piece of property and  
9 the area is not developed in an orderly manner, which  
10 poses many problems to the neighbourhood and to the  
11 city so I would say that there are possibly instances  
12 in most communities where this example could be quoted.

13 COMMISSIONER PERRY: What will happen here?  
14 Ultimately these people will die. We all do. Will their  
15 heirs take it on themselves to sell this land, or will  
16 they hesitate in the same way? What are these people  
17 waiting for? A Royal Commission to make a report?  
18 Some marvelous new dispensation, or what?

19 MR. LANGER: In regard to the one I am thinking  
20 about, they may be waiting for time, simply and purely.  
21 In this case this man bought a certain parcel of land  
22 about seven years ago. He may be simply waiting for  
23 time. ; Maybe simply waiting for quite a number of  
24 years. He may feel in a number of years he may not be  
25 as vulnerable.

26 COMMISSIONER PERRY: I am thinking of one or  
27 two people farming around Toronto would have to wait  
28 for infinity to divest themselves of the character of  
29 traders in land.

30 COMMISSIONER WALLS: They just hope it will be





1 taken over as part of the green belt.

2 THE CHAIRMAN: I don't think we need to ask you  
3 any more questions with regard to that first point.  
4 Moving on to paragraph 12 on page 21, and this is in  
5 respect to profits earned over more than one tax period  
6 presently being taxed in one taxation year and I believe  
7 that you are thinking primarily of large commissions  
8 which may be paid in one year in respect to work which  
9 has been developed over some considerable period of  
10 time. The thinking is it should be spread. Your  
11 recommendation on page 23 is that there be three  
12 alternative treatments; the total amount received be  
13 added to the other income in the year of receipt and  
14 pay taxes thereon at marginal rates applying in that  
15 year. That is the ordinary treatment, as though there  
16 was no special provision for it. And then (2)"add  
17 a proportionate part of the lump sum payment to his  
18 other income during the years in which the lump sum  
19 was deemed to have been accruing and recalculate the  
20 tax liability during those taxation years." In other  
21 words, carry it back over a period. The period might  
22 be difficult of ascertainment but anyway you think it  
23 should be spread.

24 (3) "Pay a special tax on the lump sum at a  
25 rate equal to the average tax applying to his other  
26 income during those taxation years in which the lump  
27 sum amount was deemed to have been accruing".

28 There is a precedent for that somewhere else  
29 in the Act I think, as far as I remember. Wouldn't you,  
30 under two, really have to come down in favour of a





1 number of years rather than leaving that open to a  
2 decision as to the period in which the earnings did in  
3 fact accrue, which would be very hard? I would have  
4 thought in order for it to become law it would have to  
5 be stated as three years or five years, or something  
6 of that kind.

7 COMMISSIONER WALLS: There is a precedent,  
8 of course, for the five years but would you make it  
9 applicable for commission sales only? It's commission  
10 men mostly whose income is away up one year and down  
11 another year.

12 MR. QUAIN: I think it was, as framed here,  
13 to apply to any lump sum payment; not necessarily  
14 commission lump sum payments.

15 THE CHAIRMAN: Yes. You have used the word  
16 "profit" actually in here. You have also used the  
17 word "commission" in paragraph 13.

18 COMMISSIONER PERRY: The only thing that  
19 concerns me about this is that you have other averaging  
20 devices in the law now. You are really suggesting a  
21 couple of new ones. Did you examine any of the  
22 existing devices and reject them in favour of these that  
23 you now propose?

24 MR. QUAIN: We are in this difficulty sir:  
25 The person who actually prepared this brief is not here  
26 but I am sure that this was done.

27 THE CHAIRMAN: Why not farmers and fishermen  
28 treatment?

29 COMMISSIONER PERRY: The most common treatment  
30 is the use of the effective rate over the three years





1 preceding the receipt of the amount. I think it  
2 probably applies to more cases than any of the other  
3 averaging devices. The administration always argue  
4 that they can't keep the taxpayers returns for ever.  
5 They have warehouses full of them all over the country  
6 as it is now and prefer some limited period of  
7 adjustment backwards, I think.

8 MR. McFARLANE: I would think this could even  
9 refer back to our previous item where you have a sale  
10 of property, we will say, and it has been owned for  
11 four years and it is ruled that the profit on it is  
12 income. The income or profit has not really come  
13 about in one year. It has come about as a rise in  
14 value over the four year period. This is one  
15 application I can think of where it could apply to the  
16 professional athlete. There are probably many  
17 manifestations where ---

18 THE CHAIRMAN: Sale of securities would be  
19 very common, of course. What you are saying really is  
20 that perhaps there should be a general rule that where  
21 there is some very large fluctuation in income in the  
22 one year, which would be extra, I suppose in this year,  
23 you would average the income over the last three years.  
24 Something of that nature. There should be, at that  
25 point, a means of spreading that large surge of income.  
26 I think other people have suggested somewhat the same  
27 thing to us.

28 I think that is perhaps the best context in  
29 which to consider that. Rather than having regard to  
30 real estate commission as being profit, have regard





1 to unusually large incomes from any one year.

2 MR. McFARLANE: I think it could be said  
3 that our intention, in many of these things, was not  
4 one of particular selfish interest, thinking only in  
5 terms of ourselves. We cannot speak for other bodies ---

6 THE CHAIRMAN: We expect you to speak about  
7 the matters of which you know and have experience and  
8 in which you are interested.

9 COMMISSIONER PERRY: It isn't difficult to  
10 agree that the present arrangements are not consistent  
11 or completely satisfactory. There are other  
12 arrangements and there are other areas where alleviation  
13 is required which are not treated at all.

14 THE CHAIRMAN: Shall we move on? Is there  
15 anything further?

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1 THE CHAIRMAN: Moving to the advance ruling  
2 matter at page 24. This is something that we take an  
3 interest in because we heard it so very often and many  
4 people say Canada badly needs the advance ruling procedure.  
5 The recommendation in paragraph 34, page 32, you  
6 recommend that there be binding, I think they are  
7 binding rulings and that they be printed in public  
8 for general distribution. I wasn't very clear whether  
9 you meant these rulings to be binding upon the Crown  
10 or not.

11 I looked at paragraph 35 and it may be  
12 that you would like a better, an improved practice  
13 as we now know it, to get improvement in obtaining  
14 opinions from the Department which is all you can get  
15 right now or maybe you want the Department to state  
16 that this is the result. You draw attention to the  
17 U.S. code where it is hardly any more than an opinion  
18 but there is a procedure for getting binding rulings  
19 but it isn't generally used.

20 COMMISSIONER PERRY: Paragraph 42 really  
21 answers the statement:

22 "The taxpaying numbers of the public  
23 "must be prepared to accept an unenforcible  
24 "assurance on the part of the Department  
25 "of National Revenue that a ruling will  
26 "not be revoked retroactively."

27 THE CHAIRMAN: You are not really asking  
28 for binding commitments. You are asking for an improve-  
29 ment of the present practice I think, which is an  
30 unenforcible assurance.





1 MR. QUAIN: Certainly the word "unenforcible"  
2 would lead one to believe it wouldn't be binding.

3 THE CHAIRMAN: Isn't that the most important  
4 matter to deal with here, the starting point, whether you  
5 want the Department to commit for all times or whether  
6 you are prepared to accept what is virtually the  
7 existing practice of getting the opinion of the  
8 Department?

9 MR. McFARLANE: If I might speak to that.  
10 I seem to remember discussing this point with Mr. Quain's  
11 predecessor and although he felt this would be Utopia . . .

12 THE CHAIRMAN: What would be Utopia?

13 MR. McFARLANE: That is would be enforcible,  
14 he didn't feel legally it was something that could be  
15 imposed upon the Crown or which the Crown would accept  
16 having imposed upon it so that although this was  
17 the desire there was no use asking for something that  
18 was felt to be impossible.

19 THE CHAIRMAN: There are countries which  
20 do have procedures which provide for an enforcible  
21 commitment. You don't find those too frequently but  
22 there are countries who actually do it.

23 MR. QUAIN: Possibly the thought was that  
24 the Crown could always pass new legislation. You can't  
25 bind the future actions of the Crown in Parliament.  
26 They can always later change their minds and say the  
27 rulings will not be binding henceforth and even  
28 retroactively, although retroactive legislation is  
29 not usually resorted to. I think it is the feeling  
30 of the members of this delegation they would like it





1 to be binding.

2 MR. MELTON: We want definite assurance that  
3 it would be binding.

4 THE CHAIRMAN: You would like the enforceable  
5 assurance. Are you prepared to pay the price of  
6 enforceable assurance? I doubt very much if you are.  
7 I think the price is difficult in a sense because  
8 obviously nobody is going to commit themselves unless  
9 they know all about your transaction. It has to be  
10 very formally before them. It is going to require  
11 considerable time to examine it. It is the same thing  
12 as the man assessing tax returns. He wouldn't commit  
13 himself in advance instead of afterwards. Perhaps  
14 there is an appeal procedure needed because it is the  
15 equivalent of an assessment, I think, if it is  
16 enforceable. I think you put yourself in the same  
17 position as with regard to assessing but you get the  
18 decision before the event rather than after the event.

19 I know countries where they have done it  
20 and the procedure is slow and it is not very frequently  
21 taken advantage of, I don't think.

22 MR. McEARLANE: These are the disadvantages  
23 of looking for Utopia.

24 THE CHAIRMAN: We have heard from other  
25 people the same as you. I am sure they must consider  
26 and you must consider if you want these things you  
27 have to recognize you are asking for assessment in  
28 advance.

29 MR. KATZ: It is true, but in the case of  
30 assessment it would indicate a transaction which has





1 already been entered into and completed. In the case  
2 of advance rulings, with this method the same procedures  
3 would be followed before the transaction and he could  
4 withdraw from it if it turned out to be unsatisfactory,  
5 he could not perhaps go ahead with the transaction  
6 and hope time and perhaps future legislation would  
7 take care of the particular problem for that reason,  
8 even if it is enforceable it would prevent persons  
9 entering into unwise transactions for the reason while  
10 there is a penalty the penalty wouldn't necessarily  
11 fall if the transaction wasn't completed.

12 THE CHAIRMAN: I think there is another  
13 feature. You could hardly expect the Department to  
14 give formal rulings or write letters of opinion if there  
15 is another procedure available. I would think that  
16 an assessor would not in any way commit himself or  
17 be of much assistance when he could say, go and get  
18 an advance ruling.

19 MR. KATZ: I think it would still -- the  
20 matter of getting opinions from the Department doesn't  
21 seem to be quite satisfactory.

22 THE CHAIRMAN: I have heard of that, but  
23 not very often. I have practised accounting for all  
24 my life in this country and I have yet to see the  
25 Department not come through with an opinion. I have  
26 heard of it, I must say. I think it must happen very  
27 seldom. We have had very little evidence to the effect  
28 it happens very frequently.

29 COMMISSIONER PERRY: What bearing would the  
30 protracted time have on business dealings, though?





1 In your business, for example, if a person was consider-  
2 ing an offer to buy a piece of property he couldn't say,  
3 now, wait 'til I go to Ottawa and put up a proposal to  
4 them, which may take them six months or a year to rule  
5 on. The buyer may say, I want this property this month,  
6 I can't wait for six months or a year. Doesn't this  
7 narrow the effectiveness of the advance rule procedure  
8 if it does turn out to be so elaborate?

9 MR. KATZ: In actual transactions, but I  
10 imagine this would be used for hypothetical cases; in  
11 other words a large holding held by a client and he  
12 is seeking guidance as to how to develop it or whether  
13 he should develop it now. If he gets an advance ruling  
14 then he would guide himself accordingly. It doesn't  
15 have to be a particular transaction.

16 COMMISSIONER PERRY: Could you see the  
17 Department committing itself without doing exactly the  
18 same as with regard to assessing, knowing all the facts?  
19 If they are going to deal on a hypothetical matter it  
20 has got to be done in the exact detail when the  
21 actual transaction comes along, it has got to be exactly  
22 the same thing they have agreed to.

23 MR. KATZ: Except you don't have to go  
24 ahead with the deal.

25 COMMISSIONER PERRY: I would have to quote  
26 your brief against you there, section 34:

27 "It is submitted that advance rulings  
28 "would be inappropriate in respect of the  
29 "following: hypothetical situations".

30 I don't think you have in mind hypothetical





1 situations, perhaps, in the sense that the author does  
2 here.

3 MR. KATZ: I perhaps didn't mean in a general  
4 way, I mean a transaction in the offing, one which  
5 perhaps the facts could be produced. I don't mean  
6 as hypothetical, actually.

7 THE CHAIRMAN: I don't quite know what  
8 hypothetical situation means. I think what you are  
9 talking about is a particular transaction which you  
10 visualize which might or might not be entered into and  
11 you go forward and ask whether if you carried out this  
12 particular transaction and identified it and so on and  
13 spelled it out and the Department would come along  
14 and do what I call assessing, because I think it would  
15 have to be that. That would be an improvement. It  
16 certainly would give you a much clearer understanding  
17 of what was going to result, but I think it also  
18 might bog down to the point where you would in your  
19 business, might lose the deal.

20 MR. KATZ: I think in the larger tracts of  
21 lands, some of these things go on for years before the  
22 client may commit himself so he is prepared to hold  
23 it usually for a long period of time so in this type  
24 of property it could be quite an extended period.

25 THE CHAIRMAN: Don't forget as I said before,  
26 if you do this the simple and quick way, which I  
27 think you have now and I have seen to work quite  
28 satisfactorily is out, or I believe it to be out, I  
29 don't see how you can have the two systems running  
30 together. The Department is very pressed to get their





1 own work done. If they get an established way of taking  
2 care of these things they are not going to write letters  
3 giving their opinion on it.

4 COMMISSIONER PERRY: If they have an  
5 advance ruling section this is where everyone will be  
6 sent in the future.

7 MR. McFARLANE: Certainly if you were after  
8 a binding decision it would be a slow procedure. I don't  
9 think it was a mistake in our brief when the word  
10 "unenforcible" was used. I remember discussions on  
11 this quite clearly and I think we were aiming for  
12 something as simple as possible rather than something  
13 tied down with a lot of red tape that would have offset  
14 the benefit.

15 THE CHAIRMAN: I would think it is desirable  
16 to have something as close to completely binding as  
17 possible and which could be done easily and speedily  
18 and quickly. I don't know at the present time where the  
19 correct middle position lies between the two extremes. I  
20 don't think it is the one extreme or the other. Anything  
21 further on this point?

22 We are complete with our questions up to  
23 page 38A. Moving on to valuing of property, is there  
24 anything you would like to say to us up to that point?  
25 We will go on.

26 MR. QUAIN: Did you direct a question to us?

27 THE CHAIRMAN: No, I said we will move  
28 on to valuing property, page 38A. If there is anything  
29 we have overlooked up to that point would you please  
30 tell us now or else we will go on to the next one.





1 COMMISSIONER WALLS: I note with interest  
2 your recommendation that appraisal Acts should be made  
3 uniform. You mention particularly that Expropriation  
4 Acts should be tied in with the other Acts pertaining  
5 to taxation.

6 Now, I don't know that Expropriation Acts  
7 would work in too well. You are dealing with the  
8 Federal Expropriation Act and I believe the terms  
9 of it, in dealing with expropriations, are different  
10 from the Federal Railway Act and certainly they are  
11 different to the Provincial Expropriation legislation  
12 where some provinces have as high as 20-odd Acts that  
13 deal with expropriation. It would be rather hard to  
14 get any uniformity in various Expropriation Acts before  
15 you ever get uniformity with the other Acts. You state  
16 there is little difference between the expropriated  
17 owner accepting a return based on having had his title  
18 taken away from him and the amount that he would expect  
19 to pay in order to stay where he is as against what the prud-  
20 ent purchaser would have paid sooner than fail to obtain  
21 the property.

22 I think the difference between a buyer and  
23 the seller under expropriations are entirely in two  
24 different categories.

25 I think in partically all cases a man who  
26 is going to be expropriated would expect more than the  
27 prudent buyer would be willing to pay because there are  
28 other factors that enter into expropriation aside from  
29 market value of the land. In other words in expropriation,  
30 the man is faced with the time and financial element  
of relocation which he expects to have included in the





1 value of the property expropriated from him. It would  
2 seem to me that these two men, the buyer and the seller,  
3 when you are considering the seller as being one whose  
4 property is expropriated, ~~are not on the same basis at~~  
5 all.

6 MR. McFARLANE: I would be inclined to agree  
7 with you, sir. I think the principle point is the fact  
8 that in most cases of estates the sale takes place  
9 under more or less forced sale conditions and the fair  
10 market test is not a fair test with respect to an  
11 estate because it is not a person who has plenty of  
12 time to look for a buyer. They are looking for cash  
13 to pay succession duties or beneficiaries who want their  
14 money with a minimum of delay and this forced sale aspect  
15 of the transaction should be considered and the fair  
16 market value test is not the rule in the case of an  
17 estate. Legislation in the United States and the  
18 United Kingdom has taken this into account by providing  
19 alternative dates.

20 I would be inclined to agree with you with  
21 respect to the narrow point of expropriation, sir, as  
22 a test.

23 MR. LANGER: Mr. Chairman, I have to agree  
24 I don't think there is any connection between Expropriation  
25 Acts which are very many and different ones and the  
26 estate valuation. I am afraid I cannot agree that the  
27 man who is being expropriated expects and does get  
28 any more than the purchaser on the open market will  
29 pay.

30 COMMISSIONER WALLS: Let me caution you: I





1 didn't say he got more. I said he expected more.

2 MR. LANGER: Yes, he does. However I  
3 don't think in connection with our submission on  
4 valuation for estate purposes that there is much  
5 comparison with valuations under the different exprop-  
6 riations. I have to agree on that point entirely.

7 COMMISSIONER PERRY: I notice you also  
8 bring up the point of differences of valuation between  
9 the Federal and Provincial ~~death~~ tax authorities. Are  
10 these encountered even with real property where one  
11 would think that the question wasn't as obscure as,  
12 for example, shares of closely held private companies.

13 MR. KATZ: I would like to reply to that.  
14 I have just had a recent experience, just this year  
15 in dealing with the Department. I had to agree that  
16 the same piece of property in one case was worth a  
17 considerably different amount with the Ontario Govern-  
18 ment than with the Canadian Government which seems to  
19 be rather unfair. It would seem to us there should  
20 be some co-ordination between the two. Property value  
21 theoretically can only have one value, and for the real  
22 estate man who knows his business to have to agree with  
23 two Government officials that it has two different  
24 values goes against the grain and it seems unfair.

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1 Is either one of these values right in your  
2 view?

3 MR. KATZ: The lower one.

4 THE CHAIRMAN: Close your case. Surely there  
5 is not any good answer to that, so long as there are  
6 two authorities assessing the same kind of tax, I  
7 wouldn't have thought. Valuation can only be a matter  
8 of opinion, I guess.

9 MR. KATZ: Well we call it the informed guess.  
10 However, there should be some coordination between --  
11 I understand there is, as a matter of fact in some  
12 of the western Provinces where they agree among  
13 themselves with the assessor in the Province and the  
14 Canadian Government. They work out an assessment that  
15 to them represents the estate. It is not the  
16 situation in Ontario. Sometimes for very expedient  
17 reasons, where you want to wind up the estate, you  
18 perhaps must make some sort of compromise which, in some  
19 cases, is unfair.

20 COMMISSIONER WALLS: Another thing we have  
21 heard in different places is the fact that when a  
22 property is assessed, that in too many cases it is  
23 based on the sales valuation of like properties in  
24 like areas, rather than the use to which the property  
25 has been put and will be put. Now we haven't had  
26 any accurate information on that. We have had cases  
27 quoted where you have had some temporary condition  
28 that has boosted up the price, for that type of land  
29 in the area, which really does not reflect the economic  
30 value of that land either for rental or for occupation





1 or, in the case of a farm, to be worked as a farm.

2 Have you any cases to quote where the valuation has  
3 been set too high, based on selling prices within the  
4 area concerned?

5 MR. McFARLANE: I think that this is basically  
6 one of our complaints, that departmental appraisers  
7 think in terms of a market value as indicated by  
8 comparables, whereas that the succession duty appraisal  
9 should not be a market value appraisal. I think, No.  
10 1, it should be the price that is estimated that the  
11 property will sell for quickly and for cash whereas,  
12 the market procedure most often involves long term  
13 financing and long term financing will produce a higher  
14 price but the estate is being judged on this basis:  
15 they want to dispose of it and dispose quickly and need  
16 cash for another purpose, so that it is not a true  
17 comparable. This is one of the continual arguments  
18 you have with departmental assessors.

19 There are other aspects of it, where you have  
20 maybe four owners owning a particular property, or  
21 a number of properties and one person dies. Now his  
22 interest is not a truly marketable interest, as far  
23 as market value is concerned because I, or you, may not  
24 have the slightest interest in buying in and joining  
25 in ownership with these other three owners and I think  
26 in such cases we feel there should be perhaps actually  
27 a laid down price which would permit a lower value for  
28 such interest.

29 These are the aspects I think where estates  
30 are penalized.





1 THE CHAIRMAN: Do you suggest that the word  
2 "market" be scratched?

3 MR. McFARLANE: Indeed. Indeed. This is very  
4 basic to the problem. Bert used the phrase "it has  
5 only one value". What he means is one value for a  
6 purpose. There are a number of types of values and  
7 certainly succession duty appraisal is a type of value  
8 for a specific purpose and I suggest it is quite  
9 different to ~~market value~~. It is quite different to  
10 expropriation value and ~~different~~ to insurance value,  
11 mortgage value and there are a number of types of  
12 value and estate purposes ~~should be a~~ specific type.

13 MR. KATZ: I wonder if I might just quote  
14 from the textbook that appraisers use. It is a very  
15 short definition sir for market value. It is referred  
16 to as the price at which a willing seller would sell and  
17 a willing buyer would buy, neither being under abnormal  
18 pressure.

19 In the case of the estate, you can see that  
20 those conditions cannot possibly be carried out. There  
21 is no one who is the willing seller, and abnormal  
22 pressure is one thing that very often accompanies this  
23 situation.

24 COMMISSIONER WALLS: One of the cases we  
25 have heard is the case whereby in areas that are  
26 becoming very rapidly urbanized where a farmer dies and  
27 his family wishes to continue farming but all the  
28 surrounding area has been taken up as subdivision so  
29 the recent sales are based on the price of that land  
30 for subdivision.





1 Now should that family be, in fairness,  
2 assessed at a subdivision price or at the price based  
3 on the purpose for which the land is going to be used,  
4 and has been used? Have you run into cases like that?

5 MR. QUAIN: The brief makes a recommendation  
6 of taking the annual value of the property. But whether  
7 that would cover that particular situation or not ---

8 COMMISSIONER WALLS: You see, it does not  
9 cover the interpretation that is given by the assessor  
10 because which buyer are you dealing with? Are you  
11 dealing with the buyer for farm land or a buyer for  
12 subdivision land?

13 MR. QUAIN: Item No. 60 on page 44 sir. This  
14 makes a recommendation in that respect, the rate to  
15 be given to the income producing quality of the property  
16 being appraised. Perhaps it is not right in line  
17 with what you are suggesting, income producing quality.  
18 You might say that this farm should not be used as a  
19 farm, it should be used as subdivision. Once again,  
20 it is a vacant piece of land -- perhaps you cannot say  
21 his best use is subdivision. You are really saying the  
22 owner should go out and spend a lot of money getting  
23 a subdivision plan and putting up houses, and so on,  
24 so I think income producing quality, vacant piece of  
25 land might well just be a farm, or rented to a farmer.

26 COMMISSIONER WALLS: Thank you.

27 THE CHAIRMAN: What do you recommend as a  
28 suitable substitution for the term "fair market value"?

29 MR. QUAIN: Some definition that would take  
30 into account the forced sale aspect of it, Mr. Carter.





1           COMMISSIONER PERRY: I wonder if it would be  
2 fair to anticipate paragraph 65 and ask whether if  
3 there were an alternative valuation date, you would  
4 think that there should be any change in the basis  
5 of the valuation, because this does relieve time and  
6 pressure.

7           MR. QUAIN: Yes. I think the principal  
8 recommendation of the brief is that there should be  
9 some alleviation made of the harshness of the fair market  
10 value test under circumstances which really amount to  
11 a forced sale, or which are close to forced sales.  
12 Mr. McFarlane suggested a quick sale for cash.

13           MR. McFARLANE: A quick sale for cash strikes  
14 me as an overall definition under which you could work,  
15 but there are the more complicated cases that will  
16 fall in under that definition, that there should be  
17 a particular allowance made for. Now, for example, on  
18 the question of three or four people owning the same  
19 property, you can convince the government assessor  
20 that the property should be depreciated, but there is  
21 nothing to indicate how much. If they say five per  
22 cent and won't go any further, you are stuck with five  
23 per cent and the effect of this might be as much as  
24 30 or 40 per cent in some cases.

25           MR. QUAIN: I believe Mr. Langer has a case  
26 involving this same point, or he knows of a case of a  
27 large tract of land where parcels have been sold out  
28 of it over a period of time, and he has sought the  
29 opinion of the Department, the estate tax authorities  
30 and they have told him they would value this whole





1 block on the basis of these individual sales.

2 In other words, what they are saying is that  
3 we do not expect your heirs to sell this as a block.  
4 We expect them to take their time and sell it over a  
5 period of time and in little chunks, the way you have  
6 been doing it over a great period of time and if this  
7 estate is pressed for cash, it could create quite a  
8 problem.

9 THE CHAIRMAN: You were thinking in terms of  
10 some such expression, I assume, as no realizable value  
11 under the existing circumstances?

12 MR. QUAIN: Yes.

13 THE CHAIRMAN: I suspect there is a lot of  
14 law based upon fair market value which would be scrapped  
15 under these circumstances but I gather you think it  
16 ought to be scrapped anyway.

17 MR. McFARLANE: Now Mr. Chairman the assessor,  
18 we can be proud of our Civil Servants in this respect,  
19 that they are doing such a fine job. They are buying  
20 an information service which is keeping them right up  
21 to date on market data. They are as well equipped with  
22 it as we are, but our argument is it should not be  
23 used in many cases. I believe the assessor in Ottawa  
24 gets literally every transaction that takes place in  
25 the city of Ottawa.

26 THE CHAIRMAN: Would you have a firm recommend-  
27 ation as to the amendment necessary for the law?

28 MR. QUAIN: No Mr. Chairman, I don't think so,  
29 not the exact wording of it we would not have. It  
30 would be quite a difficult drafting problem.





1 THE CHAIRMAN: The alternative date for  
2 valuation. We have heard quite a bit on this subject  
3 and there have been a number of different suggestions  
4 made to us as to what that alternative date should be.  
5 Most people would like it put forward so it would not  
6 interfere with the expedient administration of estates.  
7 Some have suggested six months.

8 Have you given any thought to what the  
9 alternative dates should be?

10 MR. QUAIN: Great Britain, I think, have one  
11 year or three years, item No. 66 on page 47.

12 COMMISSIONER PERRY: That just applies to  
13 shares.

14 MR. QUAIN: There is a clerical error there  
15 I think in the fourth line. At least I think it should  
16 be "falling". I would like to point out the Act  
17 reads falling and to have it make sense I think it has  
18 to be falling because over on the next page they speak  
19 of the value as ascertained under the said section  
20 55 in paragraph C at the bottom of it. That is true,  
21 that is only limited to shares and debentures.

22 COMMISSIONER PERRY: May I come back to my  
23 earlier question then as to what modification of  
24 market value you would think would be desirable with  
25 an alternative date of evaluation? Would you argue  
26 that even within the six month period there could be  
27 a forced sale for cash?

28 MR. McFARLANE: Yes.

29 COMMISSIONER PERRY: It would not be quite  
30 as forced as if the six months were not available, but





1 it is conceivable that there ~~still~~ could be a forced  
2 sale.

3 MR. McFARLANE: It is very conceivable I  
4 would submit, because your dead person just is not in  
5 the same ~~position~~ as a man able to participate in the  
6 financing and other factors surrounding the estate.

7 MR. KATZ: Particularly the tax that hangs  
8 over the estate that is not present when the man sells  
9 it himself during his lifetime.

10 MR. QUAIN: Another difficulty sir with the  
11 present situation is market value at the date of death.  
12 If there is one date that should not be chosen, it  
13 really is the date of death because that is one date  
14 that the property is not going to be sold on. It never  
15 does, in fact, get sold on the date of death.  
16 Preliminaries have to be attended to, such as obtaining  
17 releases.

18 THE CHAIRMAN: If there were an alternative  
19 which would be the entire ~~assets~~ valued at the date of  
20 death, or the entire assets valued at the alternative  
21 date, I would assume.

22 MR. QUAIN: Yes. One year might be -- I  
23 don't know about the average actual length of time it  
24 does take to sell a piece of property after the person  
25 dies. It depends on the complexity of the estate.  
26 The more complex it is, the longer it is apt to take  
27 but I would think one year might be an average.

28 COMMISSIONER PERRY: This would work both  
29 ways in the case of an actual sale following death.  
30 It's the price of the sale, rather than the date of



1 death. You can't always just take the lower of the  
 2 two, as I understand it.

3 THE CHAIRMAN: That brings us up to page 51,  
 4 I think, having completed the section dealing with  
 5 property valuation. Encouraging non-residents to  
 6 invest in Canada. As I read this, I found certain  
 7 reverse action, I think but you do suggest somewhere  
 8 that the existing law encourages non residents in an  
 9 investment as opposed to resident investment. I was  
 10 very much interested in your suggestion that there is  
 11 much evidence to indicate that non resident groups  
 12 use their majority position to prevent Canadian based  
 13 business from competing with foreign markets.

14 We just had two groups, I think, before us  
 15 who stated that that was not the case. Foreign  
 16 controlled companies have been competing vigorously in  
 17 foreign markets and in fact that the foreign ownership  
 18 frequently assisted them in their sales abroad because  
 19 of international sales organizations. I would be  
 20 much interested in your evidence. There have been one  
 21 or two very prominent transactions which have occurred  
 22 where Canadian policy was to permit sales of products  
 23 to certain foreign countries, and that other countries  
 24 did not agree with that policy and they instructed  
 25 their Canadian subsidiaries not to pursue it but other  
 26 than those few publicized items, is there any further  
 27 evidence that you have got?

28 MR. QUAIN: I did hear of one case of a chain  
 29 saw company. This was pure hearsay, but this particular  
 30 company started to sell abroad their chain saws which





1 were made in Canada and they were apparently making  
2 them better than the United States. This was an United  
3 States controlled company but the parent company just  
4 said stay out of foreign markets. At least they just  
5 resolved it by a resolution of the Board of Directors,  
6 since there were a majority in control on the Board  
7 of Directors and they said stay out of the foreign  
8 market.

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1                     That is the only case that I have  
2 heard of ~~that~~ kind of experience. From the point of view of  
3 economic ~~interest~~ of the parent, I would think it might  
4 work out in practice that way, that ~~during the develop-~~  
5 ment of their organization ~~they~~ may have already set  
6 up a sales organization, the parent company may have  
7 already set up an organization in various countries  
8 and it might not want duplication of effort ~~by~~ a wholly  
9 owned subsidiary or duplicate subsidiary in Canada.

10                   THE CHAIRMAN: That might well be the case. On the  
contrary it might also be true that with the creation of companies  
12 throughout the world with international sales  
13 organizations which would encourage sale of all the  
14 products of all the companies to other countries, depending on  
15 which was economically more suitable, I think that  
16 would get international business. What I was curious  
17 about was evidence, if you had any evidence. While I  
18 had heard the reference there was not too much evidence,  
19 we haven't really seen very much.

20                   MR. QUAIN: Yes.

21                   THE CHAIRMAN: Now then, the next paragraph  
22 which I am looking at here, paragraph 76, I observe that  
23 you state "the tax imposed on property of the deceased  
24 has been an important factor in encouraging and  
25 hastening the transfer of ownership and control of  
26 Canadian businesses to non resident persons". Again,  
27 have you got any evidence to support that? We would certainly  
28 ~~like~~ some because we have been most curious as  
29 to whether this is supported.

30                   MR. QUAIN: What page is this?





1 THE CHAIRMAN: Page 54, paragraphs 76 and 77.

2 "There seems to be considerable evidence to indicate  
3 that estate taxes and succession duties have in many  
4 instances been important factors in the sale to non-residents  
5 of controlling shares in a Canadian corporation".

6 We haven't been able to find considerable evidence.  
7 We have asked and we keep on asking. If you have  
8 considerable evidence in this respect, let us have it.

9 MR. QUAIN: I don't have considerable  
10 evidence. I don't have any evidence. Perhaps some  
11 of the other members have.

12 MR. McFARLANE: I wonder, and I am just  
13 thinking out loud, I wonder if this might not have been  
14 a consideration when Canadian -- was it Canadian  
15 Petroleum changed hands?

16 THE CHAIRMAN: Canadian Oil.

17 MR. McFARLANE: Canadian Oil changed hands  
18 recently. I am just starting to guess, might not the  
19 majority owner of the firm having looked to the future  
20 and realizing the estate taxes that he was going to be  
21 confronted with and he couldn't hope to meet thought with-  
22 out disposing of a large portion of his interest and  
23 if he did so at the time or after death, he is in the  
24 position of a forced vendor, so he said to himself now  
25 is the time to do it and I have solved my problem as  
26 to future succession duties.

27 THE CHAIRMAN: There are other tax reasons  
28 that got a great deal more prominence than what you  
29 are putting forward. Maybe you are right, I don't  
30 know. That wasn't the generally accepted tax reason





1 that one heard about. I cannot remember whether it  
2 was public or not so I am not going to say what it was.

3 COMMISSIONER PERRY: It is a fairly careful  
4 statement. It just says it is an important factor.  
5 I don't think one could disagree with that, normally  
6 it is an important factor. Some businesses have implied  
7 it is the only factor which means that people who have  
8 been offered perhaps twice what they would ever have  
9 hoped to get for their business are only selling it  
10 because they are worried about the estate taxes.

11 THE CHAIRMAN: This goes on to say "to non  
12 residents", "the sale to non residents".

13 COMMISSIONER PERRY: The inference in that is  
14 that only non residents will offer twice what the  
15 business is worth.

16 THE CHAIRMAN: I think so.

17 MR. QUAIN: There is a big market -- if you  
18 are looking for a purchaser of a valuable enterprise  
19 you would certainly go down there, if you were trying  
20 to get the best value, I think, as well as in Canada.

21 THE CHAIRMAN: I am looking at page 56 at the  
22 moment. I see at the bottom of paragraph 29 that you  
23 believe there should be a more flexible rule applicable  
24 to the time within which after the death of an estate  
25 owner, estate and succession duties are required to  
26 be paid". I don't think I see a formal recommendation  
27 in respect to that. Am I incorrect? Your recommendation  
28 is that the procedure should be more flexible?

29 MR. QUAIN: Yes.

30 THE CHAIRMAN: I think there is now a provision





1 for deferred payments where there is distress; am I  
2 not correct?

3 MR. QUAIN: I don't know, Mr. Chairman.

4 THE CHAIRMAN: Moving on to "How Canada  
5 taxes non residents", it is suggested that in some  
6 respects our laws favour non residents against  
7 Canadians. I have often thought there are two rather  
8 important matters favouring Canadians, and I don't  
9 think they are noted here, that is the business,  
10 despite what you say, of capital gains tax in Canada  
11 and the dividend credit.

12 COMMISSIONER WALLS: In paragraph 93 on page  
13 62 you say in part "Where control of property is  
14 vested in a non resident person or group of non resident  
15 persons, the withdrawing from Canada of profits earned  
16 by such a property might be discouraged by increasing  
17 the withholding tax on such withdrawals." Was this  
18 perchance put into the brief before the new budget?

19 MR. QUAIN: Yes, sir, it was.

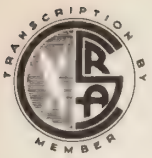
20 COMMISSIONER WALLS: Resolution 6 and 7 would  
21 appear to take care of that.

22 MR. QUAIN: To some extent, sir, the 25 per  
23 cent vis-a-vis the 51 per cent.

24 THE CHAIRMAN: Then you support the action  
25 that was taken in that respect?

26 MR. QUAIN: Yes, Mr. Chairman, except that  
27 perhaps it might have gone a little further. We had a  
28 discussion last night and some of the members felt  
29 perhaps there shouldn't have been any penalty at all  
30 provided, that there only be encouragement and the





1 benefits to Canada would have been more than made up  
2 for by the lack of retaliation by the Americans.  
3 Their equalization bill is still sitting there. If we  
4 take no steps against Americans possibly the people  
5 who favoured the view Canada should not be hurt by  
6 whatever they do will be in a much stronger position  
7 to say all Canada is doing here is helping us.

8 COMMISSIONER WALLS: The trouble there is  
9 you would encourage so many individuals they would go  
10 over the 51 per cent and they would all pay higher  
11 taxes anyway.

12 MR. QUAIN: There would have to be some  
13 method of warning.

14 THE CHAIRMAN: Any further questions?

15 COMMISSIONER WALLS: No.

16 THE CHAIRMAN: Thank you very much. We have  
17 no further questions. We thank you for this help in  
18 this submission and in your answers today. It has been  
19 very interesting to us and we will certainly fully  
20 consider what you have put before us.

21 MR. MELTON: Thank you very much, Mr. Chairman.  
22 If we can be of some further help in clarifying any  
23 points we would be glad to do so.

24 THE CHAIRMAN: Mr. Secretary, what is next?

25 THE SECRETARY: Mr. Chairman, the next  
26 submission is being presented by the National Council  
27 of the Baking Industry. Mr. Arthur May, Executive  
28 Director of the Council is here to speak to the brief  
29 and associated with him is Mr. P.K. Large who is  
30 Managing Director of the National Council of the Baking





1 Industry. I would like to enter this brief into the  
2 record as Exhibit 250.

3  
4 ---EXHIBIT NO. 250:

Submission of the  
National Baking  
Council.

7 SUBMISSION OF

8 THE NATIONAL BAKING COUNCIL

9 Appearances: Mr. Arthur May

10 Mr. P.K. Large

11  
12 THE CHAIRMAN: Thank you, Mr. Secretary.  
13 Good morning Mr. May and Mr. Large. We are glad to  
14 see you. We have reviewed what you have put before us  
15 and there is no need to read it. We will have a few  
16 questions to ask you. Before doing so is there anything  
17 that you would like to say to us? You described your  
18 organization I think to some extent, but you might like  
19 to amplify that. Anything you would care to say we  
20 would be glad to hear.

21 MR. MAY: Thank you, Mr. Chairman. You have  
22 reviewed the brief and we are aware that it deals with  
23 one specific Section of the Excise Tax Act, and particularly  
24 with re-usable and returnable coverings from the  
25 past to the point now as it now reads, particularly  
26 with respect to shipping containers for bread, all of  
27 which are reusable. I brought along a memorandum. This  
28 memorandum deals with the sequence of events in the  
29 change of the wording to the present wording. It  
30 summarizes the sequence of events that brought about the





1 final wording of the "usual coverings" or "usual containers"  
2 exemption and the changing amendments as they went  
3 before Parliament. It pretty well sums up our case.  
4 It is not very long. Perhaps I could read this?

5 THE CHAIRMAN: By all means.

6 MR. MAY: Memorandum: Changes in the  
7 wording of the "Usual Coverings" Sales Tax Exemption -  
8 introduced in the Budget March 31st, 1960 - and approved  
9 by Parliament - June 14th, 1960.

10 A revision of the wording of the "Coverings  
11 and Containers" Excise Tax Act exemption was announced  
12 by the Minister of Finance in his Budget Address of  
13 March 31st, 1960.

14 A revised wording was included in the  
15 Resolutions appended to the Budget. This read:

16 12. That the exemption from sales tax  
17 for, "Usual coverings to be used exclusively  
18 "for covering goods not subject to the  
19 "consumption or sales tax and materials  
20 "to be used exclusively in the manufacture of  
21 "such coverings" be changed to read:

22 "Usual coverings or containers to be  
23 "used exclusively for covering or containing  
24 "goods not subject to the consumption  
25 "or sales tax, and to be delivered and sold  
26 "with the goods, and materials to be used  
27 "exclusively in the manufacture of such  
28 "coverings or containers."

29 The underlined represent the only changes  
30 in the wording from how it read previously. It took





1 cognizance of the Decision of the Tariff Board in Appeal  
2 No. 496 - which implied that the exemption might reason-  
3 ably be interpreted to apply

4 "to those coverings, wrappings or packages  
5 "in which goods are packed or contained,  
6 "inter alia, for convenience of handling,  
7 "for protection during transportation, or in  
8 "which they are made available for sale."

9 This was achieved by changing the former  
10 words "coverings" and "for covering" now to read  
11 "coverings and containers" and "for covering and  
12 containing".

13 But- in introducing the phrase "and to be  
14 delivered and sold with the goods" - the revised word-  
15 ing excluded from the exemption all coverings or contain-  
16 ers which were re-usable.

17 Obviously, there were second thoughts about  
18 limiting the exemption to exclude all re-usable containers.  
19 When the Budget Resolution came before Parliament  
20 for the first reading on June 6th, 1960 - it still read  
21 as it had in the original Budget.

22 When it came up for second reading on June  
23 8th, 1960, the Resolution read:

24 12. That the exemption from sales tax for,  
25 "Usual coverings . . . ." be changed to  
26 provide an exemption for  
27 "(a) usual coverings or usual containers  
28 "to be used exclusively for covering or  
29 "containing goods not subject to the consumption  
30 "or sales tax but not including coverings or





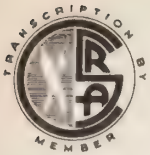
1 "containers designed for dispensing goods  
2 "for sale or designed for repeated use other  
3 "than  
4 "(a) barrels, boxes, baskets, crates and  
5 "bags for packaging fruits and vegetables,  
6 "(b) boxes and crates for eggs,  
7 "(c) butter and cheese boxes,  
8 "(d) cans and insulated bags for ice cream,  
9 "(e) corrugated paper boxes for bread,  
10 "(f) flour bags,  
11 "(g) milk and cream bottles, milk and cream  
12 "cans; and materials to be used exclusively in  
13 "the manufacture of the foregoing coverings  
14 "and containers not subject to consumption  
15 "or sales tax."

16 This was the wording finally approved by  
17 Parliament.

18 The original revision - which would have made  
19 all reusable containers taxable - went by the board -  
20 and an anomalous and discriminatory specified list of  
21 re-usable containers continued to be tax exempt. One  
22 of the discriminations contained in the specified  
23 list is that re-usable containers for most essential foods  
24 continued tax exempt but - for the baking industry -  
25 only the corrugated box was so treated. The baking  
26 industry had long ceased to make use of the corrugated  
27 paper box for bread except in almost limited way.

28 The final result, therefore, was to deny  
29 tax exemption for probably ninety per cent of all  
30 containers used in Canada to ship bread.





1 This is the crux of our whole case.

2 THE CHAIRMAN: Thank you. Only the exemption  
3 that applies to the corrugated paper boxing applies  
4 as far as your industry is concerned.

5 MR. MAY: Only re-usable. For most industries  
6 the corrugated box is not a re-usable container. It  
7 is a disposable container. Because bread is bulky and  
8 low in cost we haven't been able to find a disposable  
9 usable shipping container for bread. In contrast to the  
10 fact that the tax exempt shipping container for bread  
11 applies only to the corrugated box which we no longer  
12 use you might look at (a) of ~~these~~ revised exemptions  
13 which deal with "barrels, boxes, baskets, crates and  
14 bags for packaging fruits and vegetables". You will  
15 note in this case they have all possible containers  
16 and haven't been limited in one of these containers to  
17 any specific material.

18 When you move to bread which I believe is  
19 an equally essential food as fruits and vegetables they  
20 single out only a single type of container, but it  
21 do it to a single type of product.

22 THE CHAIRMAN: I think I know why a large  
23 group of foods are exempt from taxes. I am not too  
24 sure I understand why the returnable containers in which  
25 these foods are carried should be exempt from tax. Is  
26 it because they are used in production such as machinery  
27 or it is because they are so closely associated with  
28 the food that they should take the same character as  
29 food?

30 MR. MAY: No. When the bread is baked the





1 baker has to get the bread from the bake shop, shipping  
2 room, into the store or into the point of distribution.  
3 He doesn't use a ~~once~~-use container. He uses one of the  
4 re-usable containers and the bread is taken out and it is  
5 brought back and it is continually used. With respect  
6 to most foods today they use corrugated boxes as  
7 shipping containers. It is used only once. With  
8 respect to bread it is too expensive. It would work  
9 out at, if you use a corrugated shipping container  
10 only once, at two or three cents a loaf. There isn't  
11 that amount of spread for that kind of shipping cost.

12 It is a question of the nature of the food.  
13 Bread is shipped daily, shipped usually on the bakers'  
14 own trucks and it can be shipped in re-usable containers  
15 more cheaply and more satisfactorily than in once  
16 used containers.

17 THE CHAIRMAN: What you say makes pretty  
18 good sense. We should not draw a line between the once  
19 used and the continually used. What I am concerned  
20 about is should we go in exactly the opposite direction  
21 and recommend that all containers should be taxable.  
22 We are looking for more goods to tax, not less.

23 MR. MAY: We are talking about essential  
24 foods and I think that nearly every type of Government  
25 that introduced a sales tax has exempted, usually  
26 exempted foods. Our Government does the same thing.  
27 The exemption would be only following the foods, it  
28 would exempt all the packaging in which the foods are  
29 shipped.

30 COMMISSIONER WALLS: Are we not getting to a





1 case today where in dealing with tax-free containers, that  
2 these containers are going to the extreme where they  
3 are denying the sale of like taxable items. In other  
4 words the container that is customarily used by man-  
5 ufacturers for containing products -- I saw the other  
6 day that one of the big coffee manufacturers is now  
7 putting his coffee in a carafe instead of in the tins  
8 as he was doing previously. You see it in regard to  
9 salt and pepper shakers. You used to buy a carton. ~~INTERVIEW~~  
10 these condiments in a carton. Now they ~~are~~ Now they ~~give~~  
11 give you a shaker that can be used on the table. In each  
12 of these cases these containers are now getting to the  
13 point where they are replacing taxable items that would  
14 otherwise be bought. I think if this continues it could  
15 very well cause the Government to give serious consider-  
16 ation to the taxation of containers.

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1 MR. MAY: Well I think, if I may comment  
2 sir, the criteria here is usual container. I am quite  
3 content, in my own mind, that the Department do not  
4 regard that carafe as a usual container and a tax  
5 has indeed been paid on the carafe. I think that  
6 carafe is considered to be more in the nature of an  
7 unusual container but when you come to a simple  
8 shipping box to move bread from a bakery to a store,  
9 we are not in the area of unusual containers. We are  
10 in the area of containers that are extremely well  
11 used for moving simple and staple food.

12 COMMISSIONER WALLS: I think you had a much  
13 better case before the Government started to tax  
14 apparatus and machinery of production because many of  
15 these containers that you use for bread are used for  
16 the handling of the product within your plant and for  
17 the delivery of the product, and it is going to be  
18 increasingly difficult now to draw a line between that  
19 and other apparatus that is used in production, and so  
20 your position is getting a little (tougher) even to  
21 get it on cardboard boxes, I would think.

22 MR. MAY: It is pretty obvious from this  
23 brief that there has been quite a bit of discussion  
24 between myself and the Department over a period of  
25 fourteen years on this matter of containers that  
26 come into use at the end of the production and on  
27 process. These containers do not come into use until  
28 the bread has been made and wrapped and have never  
29 been regarded as production apparatus for sales tax  
30 purposes.





COMMISSIONER WALLS: I wonder if that is entirely correct? I would just like to go back to a little of the history of it that is perhaps not covered in your brief. There was a sales tax bulletin that was issued on October 30th of 1945 which has been revised and is still in force which reads, "It was ruled that the following items cannot be interpreted as tax free apparatus or machinery of production and would, therefore, be specifically taxable" and the items listed were wooden shipping boxes, plywood boxes, hampers or trays if used for shipping or delivering purposes. Then following up that was the exemption that you mentioned where there were six classes of items that they changed their mind about. In your case you got exemption for cardboard cartons ---

MR. MAY: And a lot of others, incidentally.

17 COMMISSIONER WALLS: Just a second now. It  
18 seems to me, first of all, that perhaps the Government  
19 must have had that recommendation of cardboard cartons  
20 from somebody in your industry, who was apparently not  
so alert as the fruit and vegetable industry whose exemption  
ers every conceivable form of container that they now use or  
22 could use in the future and that would show that  
23 perhaps the fault lay at that time in your not  
24 enlarging on just exactly what you wanted. Would you  
25 care to tell us something about that?

MR. MAY: Yes. At various times we have received from the -- subsequent to this bulletin that you have quoted, which I think you quoted as being 1946.

COMMISSIONER WALLS: October 30th, 1945.





1 MR. MAY: 1945. Subsequent to that we  
2 received specific formal written rulings from the  
3 Department that shipping containers for bread, made of  
4 solid fibre board and known as tote boxes, as my  
5 brief said, we received a specific ruling that wooden  
6 boxes used to ship bread were tax exempt. We received  
7 a specific ruling that corrugated paper boxes whether  
8 used or re-used were tax exempt. We received a  
9 specific ruling that metal delivery boxes or trays  
10 were tax exempt and it was when the Department reversed  
11 the ruling on the metal delivery trays that I took it  
12 to the Tariff Board. Now it was not a case of -- when  
13 the Parliament got through with it and Parliament did  
14 start to make this distinction, Mr. Chairman, that you  
15 made that all reusable containers should be taxed, but  
16 they were pulled up short from the outcry from the  
17 vegetable industry, the dairy industry. This would  
18 have made milk bottles subject to tax, and then in  
19 the ensuing discussion that went on, I couldn't get  
20 any further with the Department than the exemption on  
21 a box that the baking industry no longer used and bread  
22 is one of the very few fields in which the delivery  
23 box is subject to any kind of a tax.

24 COMMISSIONER WALLS: I will agree with you  
25 that if they exempted one type of delivery box, and  
26 that type has now become obsolete, I think you have a  
27 good case for getting tax free the more modern implement  
28 or covering, or whatever you wish to call it. I am  
29 just wondering if these new plastic ones that you  
30 mentioned, and wooden and metal ones, if there is any





1 chance that they could be used for some other purpose?

2 MR. MAY: If they could, and were, then they  
3 would not be eligible for tax. The products I am  
4 talking about are not. I am talking about the product  
5 that the bread is put into when it is through the  
6 baking process and through the wrapping process and  
7 taken from the bakery to some place else and then  
8 brought back and continually reused for that same  
9 function: just to deliver bread.

10 COMMISSIONER WALLS: Is it not a fact that  
11 the retail stores sometimes use them for displaying  
12 bread?

13 MR. MAY: Yes.

14 COMMISSIONER WALLS: And display cases, yo  
15 are taxable. I think that is one of the troubles  
16 you are running into. You have now got a product that  
17 would be both taxable and non taxable.

18 MR. MAY: Let me qualify the answer to your  
19 question as to what type of apparatus or box is used  
20 within a retail bakery. These are invariably taxed,  
21 and they are deemed to be the implements of merchandise  
22 within the bakery but when you come to the large bakery,  
23 and I am not talking about the type of metal tray for  
24 merchandise and sale in a retail bakery, but the trays  
25 moved from the bakery where it is going to be sold  
26 outside the bakery.

27 COMMISSIONER WALLS: Over how long a period, and  
28 how close a check do you have that your accounts return  
29 these?

30 MR. MAY: They are fairly extensive. The





1 corrugated box does not come back very often. In those  
2 few cases where it is still used, I agree the loss is  
3 30 and 40 per cent, but when we get into this modern  
4 type of delivery box and tray, the cost could be and  
5 is several dollars. I think the practice is to leave  
6 them stacked in the grocery store at the back and the  
7 driver is expected and is required to account for all  
8 metal trays taken out to see that he gets an equal  
9 number back. This is a close check, I believe.

10 THE CHAIRMAN: I don't think we have any more  
11 questions to put to you. Thank you very much indeed  
12 Mr. May. We will continue to look at this, we can  
13 assure you and if we agree with you, we will make a  
14 recommendation. If we don't agree, we probably will  
15 too. We are very grateful to you for this submission.  
16 Thank you very much.

17 MR. MAY: Thank you Mr. Chairman.

18 THE SECRETARY: Mr. Chairman, I have two briefs  
19 to enter into the record. One from Hickman Tie Hardware  
20 Company Limited of Victoria, B.C. which will be  
21 Exhibit 251, and one from Mr. John A. Oates of Kitchener,  
22 Ontario which will be Exhibit 252.

23 ---EXHIBIT NO. 251: Brief from Hickman Tie  
24 Hardware Company Limited  
of Victoria, B.C.

25 ---EXHIBIT NO. 252: Brief from John A.  
26 Oates of Kitchener, Ont.

27 THE SECRETARY: That is all until tomorrow  
28 morning.

29 THE CHAIRMAN: We will stand over until 9:30  
30 tomorrow morning.  
---ADJOURNMENT.



# ROYAL COMMISSION

ON

# TAXATION

## HEARINGS

HELD AT

OTTAWA

ONT.

VOLUME No. DATE:

65

NOV 8 1963

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TORONTO

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THE ROYAL COMMISSION ON TAXATION

Hearing held in the Centre Court  
Room, Exchequer Court of Canada,  
Supreme Court Building, Welling-  
ton Street, Ottawa, on Friday,  
the 8th day of November, 1963.

COMMISSION :

MR. KENNETH LeM. CARTER -- Chairman

MR. J. HARVEY PERRY

MR. A. EMILE BEAUVAIS

MR. DONALD G. GRANT

MRS. S.M. MILNE

MR. CHARLES WALLS

LEGAL ADVISER:

MR. J.L. STEWART, Q.C.

RESEARCH DIRECTOR:

PROF. D.G. HARTLE

SECRETARY:

MR. G.L. BENNETT

\* \* \* \* \*





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TORONTO, ONTARIO

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| 255 | Submission of Mr. Francis<br>Lorenzen                                | 5220 |

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ANGUS, STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

Ottawa, Ontario

Friday

5130

November 8th, 1963

R/RPS 1

2 ---ON COMMENCING AT 9:30 A.M.

3

4 THE CHAIRMAN: Our visitors are now ready.

5 I think we can start.

6 THE SECRETARY: Thank you Mr. Chairman,

7 Commissioners. This morning the first brief is being

8 presented by the International Business Machines Company

9 Limited. Mr. J.E. Brent, President of the company and

10 Mr. R.H. Thomas, Treasurer, are here before you. Mr.

11 Brent wishes to speak to the brief which I now enter

12 into the record as Exhibit 253.

13

14 ---EXHIBIT NO. 253:

Submission of the  
International Business  
Machines Company  
Limited.

15

16

17 SUBMISSION OF

18 THE INTERNATIONAL BUSINESS MACHINES COMPANY

19 LIMITED

20 Appearances: Mr. J.E. Brent

21 Mr. R.H. Thomas

22

23 THE CHAIRMAN: Thank you Mr. Secretary.

24 Good morning Mr. Brent, Mr. Thomas. Did I get the name  
25 correctly?

26 MR. THOMAS: That is right.

27 THE CHAIRMAN: It is a great pleasure to

28 us to see you here. We are flattered indeed to have

29 the President of I.B.M. before us today. I personally

30 am delighted. I have known Mr. Brent for some 30 years,





1 I am afraid. Something like that and I think I probably  
2 recognize you as the first salesman of I.B.M. that I  
3 have met.

4 MR. BRENT: Thank you.

5 THE CHAIRMAN: And I am glad to know that  
6 you have had success. This is an interesting submission  
7 you have made to us. We will have some questions to  
8 put to you. We would like to hear more about the  
9 problem. We will probably all have questions but before  
10 we proceed with that, do you Mr. Brent, or Mr. Thomas,  
11 wish to address any remarks to us? We would be very  
12 glad to hear anything you have to say.

13 MR. BRENT: Thank you Mr. Chairman. I was  
14 interested in your introductory remarks about my being  
15 the first I.B.M. salesman you had met. While this is  
16 not pertinent to our discussion this morning, the occas-  
17 ion when I first met your Chairman was one on which I  
18 was not a successful I.B.M. salesman.

19 It is my pleasure to place before this  
20 Commission this morning the submission of the I.B.M.  
21 Company of Canada. As you are aware, our brief deals  
22 with two specific cases where we have found what we  
23 consider to be inadequacies in the present tax structure  
24 which discriminate against our company. These are  
25 brought to your attention for two reasons: first,  
26 because we believe you would want to be informed about  
27 any weaknesses in the present tax law and, secondly,  
28 because we feel they illustrate that legislation that  
29 may meet normal situations adequately, may be quite  
30 unfair in the case of special situations.





1 By this I do not intend to suggest that  
2 the I.B.M. company is abnormal in most ways. However,  
3 we are one of the very few large manufacturing companies  
4 in Canada where the bulk of our revenue is derived from  
5 the lease rather than from the outright sale of our  
6 products. Apart from this, we are a normal and a  
7 substantial Canadian company and we believe we have  
8 given ample evidence of the fact that we are a first-  
9 class corporate citizen.

10 Not only do we employ 4,200 Canadians at  
11 above-average rates and working conditions, but I would  
12 suggest that we are among the first Canadian subsidiary  
13 of foreign companies in the secondary manufacturing  
14 industry that has developed a substantial export trade.  
15 Our exports last year were \$26-1/2 million representing  
16 something over 50 per cent of our total production.

17 For a great many years our management  
18 has been all Canadian. Our Board of Directors has  
19 been Canadian-dominated, with several members being  
20 non-employees. Moreover, and I think most important,  
21 the products that we manufacture and sell in Canada  
22 do contribute to the overall growth of the Canadian  
23 economy by making industry and other organizations  
24 more efficient and more productive.

25 Therefore, I know of no reason why the  
26 Canadian Government would wish to discriminate against  
27 our company, nor do I believe that there is any reason  
28 and yet, in fact in the two instances we cited in our  
29 brief, we are being discriminated against.

30 The first item deals with certain tax credits





1 provided for under Section 40A. These credits have  
2 not been available to our company simply and solely  
3 because we lease rather than sell the bulk of our  
4 products. This has meant we have been deprived of  
5 tax credits in the years 1962 and 1963 of approximately  
6 \$900 thousand. While Section 40A will become a matter  
7 of history when it is repealed in March of next year,  
8 nonetheless we do strongly urge this Commission to  
9 recommend that manufacturing companies who lease their  
10 products should be accorded the same treatment as  
11 manufacturing companies who sell their products.

12 The second case in our brief deals with  
13 the application of capital cost allowances. The  
14 regulations of the Income Tax Division of the Depart-  
15 ment of National Revenue have been in effect for a  
16 number of years. We contend that they should be  
17 revised to give effect and consideration to new types  
18 of equipment that have come on the market in recent  
19 years.

20 As you well know, the regulations provide  
21 for certain specific classifications and rates and a  
22 catch-all class, class 8 for all other assets. Class  
23 8, apparently, is adequate for a great many companies.  
24 For some it is not. In our case the inadequacy of  
25 class 8 stems from the fact that the bulk of our assets,  
26 well over 90 per cent of our assets, are in the form  
27 of electric and electronic data processing machines.

28 These machines are highly developed  
29 technologically, and they are subject to rapid absoles-  
30 cence. As a result, our rate of 20 per cent on a





1 diminishing balance basis is completely inadequate for  
2 our company. It just does not give effect to the  
3 comparatively short life of our assets.

4 Moreover, we feel that the regulations  
5 governing capital cost allowances are too rigid. While  
6 they do not intentionally discriminate, I am sure, the  
7 fact is that they do discriminate through oversight  
8 and through not taking into consideration certain  
9 special circumstances and they are so rigid that it is  
10 difficult to correct this situation.

11 As a result, our company finds ourselves  
12 in this position: first, we have assets in our  
13 capital cost allowance schedule with an undepreciated  
14 capital cost of a very substantial amount. Whereas,  
15 these machines have actually been disposed of and  
16 written off our books. In the second case, we have  
17 actual disallowances for tax purposes of roughly  
18 one million and a half dollars for the period of 1959  
19 to 1962 on which we have paid income tax of roughly  
20 half that amount.

21 I would like to emphasize that our  
22 situation would be much more serious were it not for  
23 the provisions for our equipment and modernization  
24 which were introduced in June of 1961 but since these  
25 provisions will end in March of next year, our  
26 situation next year will be aggravated accordingly.  
27 Therefore, we recommend to this Commission that the  
28 regulations governing capital cost allowances should  
29 be amended to provide for a new classification and  
30 rate structures for electric and electronic data





PRS 1 processing machines and, secondly, for some reasonable  
2 provision for the deduction of loss on disposals.

3 It is our feeling that these two examples  
4 in our brief listed is on legislation that meets the  
5 average case maybe quite unfair in special circumstances,  
6 and secondly that there should be some provision short  
7 of amending the legislation that would make the intent  
8 of the legislation available to the taxpayer who  
9 otherwise is deprived of his benefits because of special  
10 circumstances not known or were not considered at the  
11 time the legislation was enacted.

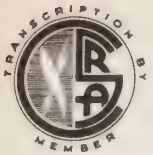
12 We hope our brief will be helpful to this  
13 Commission and your important task of developing a  
14 simpler tax structure for Canada. We would now be  
15 happy to answer any questions the members of the  
16 Commission may have.

17 THE CHAIRMAN: Thank you. Do not bother  
18 standing any further unless you wish to do so.

19 Your submission has already been of help  
20 to us. It is interesting to note that a great deal of  
21 your business is in the export market. We have discuss-  
22 ed Canadian exports from time to time in this Commission,  
23 and would you say that your export business is added  
24 or impeded or really not affected by virtue of the  
25 fact that you are a subsidiary of a foreign company?

26 MR. BRENT: I would say that our export  
27 business is almost entirely the result of the fact that  
28 we are a subsidiary of an international company.  
29 Our exports are what we manufacture in Canada because  
30 of the type of product that the I.B.M. company makes





1 and sells. It is not possible for any one of the  
2 subsidiary companies to make all of the products in  
3 the line. This would not be rational. As a result,  
4 it is decided centrally in New York what a given  
5 manufacturing plant makes, and this is based on  
6 certain conditions within the country and other  
7 countries.

8 We are designated as the source of world  
9 trade or for, maybe, everybody including the United  
10 States for given components or pieces of equipment, and  
11 our exports all go to our sister subsidiary companies  
12 and to our parent company, and we are really I would  
13 say literally entirely beholden to the fact that we  
14 are a subsidiary of an international company for the  
15 volume of our export business.

16 THE CHAIRMAN: Thank you.

17 COMMISSIONER WALLS: I have a question to  
18 follow up on that, and that is, on the seventy-two  
19 per cent of your business that you turn out at your  
20 Don Mills plant which is utilized in Canada, is it  
21 seventy-two per cent of what you sell in Canada that  
22 comes from your Don Mills plant?

23 MR. BRENT: Yes. Seventy-two per cent of  
24 what we sell on the Canadian market.

25 COMMISSIONER WALLS: What percentage of  
26 that is made up from parts that you brought up from  
27 the United States and assembled here?

28 MR. BRENT: A substantial percentage. I  
29 couldn't give you the precise figure. I can tell you  
30 that the Canadian content of our overall production is





1 in the range of fifty per cent.

2 COMMISSIONER WALLS: Only your Canadian production  
3 that you export, is it  
4 /principally parts for other assembly plants or  
5 complete units?

6 MR. BRENT: It is both. It is principally  
7 complete units. We do export parts. We export a  
8 hydraulic unit which is used in the most popular print-  
9 ing mechanism or machine, and export this to the  
10 United States and to other countries where they use  
11 it. We are also the supplier of this component which  
12 is an important component to the printer. The bulk  
13 in exports are in the form of complete machines as  
14 opposed to parts.

15 THE CHAIRMAN: Thank you. You put forth  
16 two aspects of Canadian taxation. The first of these  
17 is concerned with rental business and tax legislation.

18 MR. BRENT: Correct.

19 THE CHAIRMAN: And you cite an example of a  
20 Section soon to become obsolete. It seems to me that  
21 is not a very happy example to make your point because  
22 while it has been the case, it is no longer. Would  
23 there be any other examples in the Act to demonstrate  
24 the point of discrimination against that business which  
25 is rental?

26 MR. BRENT: The information that has  
27 affected us recently -- there was one case, with which  
28 I am not familiar, back at the time of the Korean War,  
29 but this has really been the first case in recent  
30 years where legislation has discriminated against us  
because of the fact we are primarily in the rental





1 business. I agree with you that it is not the best  
2 illustration because ~~it~~ has been repealed. We had  
3 no control over the repeal. Nobody has challenged this,  
4 and it means \$900 thousand in additional taxes to us.

5 COMMISSIONER WALLS: Most of your case  
6 is based on ~~experience~~ of the No. 650 system which you  
7 state has an average life of 3.8 years. What has been  
8 your experience in regard to your other types of  
9 equipment?

10 MR. BRENT: We use the 650 because it was  
11 the first popular computer that had widespread accept-  
12 ance. It is really the first one that has become almost  
13 completely obsolescent. We have other illustrations  
14 such as our 705 computer, a large-scale computer, and  
15 its life likewise has been short. It was a machine  
16 that was used by a relatively small number of customers  
17 because it was a large capacity machine. There are the  
18 702, 703, 704, and we did not use these in our  
19 illustration because their use was relatively limited  
20 so far as the number of customers we have was concerned.

21 The experience in all of our computers,  
22 so far as ~~their~~ life span is concerned, is relatively  
23 short. We are really just, in a sense, getting into  
24 this business, into the electronic computing business,  
25 and as a result our business has grown rapidly in  
26 the last several years. We will not be able to quote  
27 precise figures of the obsolescence of our equipment  
28 until we have had a little more experience.

29 The machine which is really obsolete is the  
30 650 introduced in 1959. Type 1401 replaced it, and it





1 is still being used and it has been modified. Some  
2 units, some of the first, are obsolete, but it is still  
3 one of the computers still in use. There is new  
4 equipment that is announced and will be announced,  
5 and this second widely-accepted computer will likewise  
6 have a relatively short life.

7 THE CHAIRMAN: Taking the 650 as an example,  
8 is the reason that it has enjoyed a life of only 3.83  
9 years because it is of a new type, or would you  
10 anticipate that succeeding equipment will have equally  
11 short lives?

12 MR. BRENT: We would anticipate that  
13 succeeding equipment would have equally short lives.

14 THE CHAIRMAN: You believe that is the  
15 nature of the business?

16 MR. BRENT: Yes. The technology is changing  
B2 17 so rapidly in the electronics industry, and specifically  
18 in the computer field, that all the evidence is that  
19 computers are not going to have any appreciable life.  
20 As a result of this, our American company, for example,  
21 depreciates computers in four years using the sum  
22 of digit method which means on a four-year basis the  
23 depreciation the first year is forty per cent, the next  
24 year 30 per cent, and 20 per cent, and 10 per cent.

25 On the other equipment, our regular  
26 punch card equipment in the United States is depreciated  
27 also on the sum of digit basis on a five-year basis.

28 THE CHAIRMAN: You are speaking of  
29 accounting basis, not taxes.

30 MR. BRENT: Yes. These depreciation rates





1 are for tax purposes. Other major companies we operate  
2 it is recognized, the character and equipment and life  
3 of it, and we get substantially a more generous deprec-  
4 iation allowance than is provided for in Canada.

5 THE CHAIRMAN: What was the experience of  
6 your punch card equipment? What was the usual life of  
7 it? It seems pretty much the same.

8 MR. BRENT: That is true. There wasn't a  
9 change in our business, and for a long time we figured  
10 the average life of our equipment to be six years.  
11 Depreciation schedules were based on this. Our replace-  
12 ment plans were based on this. This was adequate.  
13 But, as we advanced over the years, the life of the  
14 equipment, even the punch card equipment, has become  
15 shorter.

16 THE CHAIRMAN: This is perhaps one of the  
17 only times that we have learned of the inadequacy of  
18 the Canadian depreciation or capital cost provisions.  
19 Generally speaking, they would seem to be liberal.  
20 What you would suggest as being necessary is a separate  
21 classification for computers?

22 MR. BRENT: Yes.

23 THE CHAIRMAN: Is there anything else that  
24 should go in that besides computers? Anything close  
25 to computers?

26 MR. BRENT: Yes. I would suggest what  
27 we call our electric data processing machines. This  
28 really is our punch card line of equipment, and we  
29 believe this ought to have a special classification  
30 that would provide for a depreciation rating of, let us





1 say, thirty per cent on assuming a diminishing balance  
2 basis.

3 THE CHAIRMAN: That is about a six-year  
4 life?

5 MR. BRENT: Something less than six years.  
6 For example, in 1962 the average life -- our most  
7 popular punch card accounting machine is 407 and we  
8 had 142 units in 1962, the average age scrapped is  
9 is 4.67 years. Our other two accounting machines  
10 403 and 402, one was 5.15 years and the other 5.80  
11 years when scrapped. That was the average life of  
12 249 units which were scrapped last year.

13 THE CHAIRMAN: What I do not quite follow  
14 is your experience. If your punch card equipment had  
15 about a six-year life and if it had been amortized under  
16 class 8 for tax purposes on a ten-year basis, or  
17 close to a ten-year basis, you then have a much  
18 greater unamortized balance than you would have on  
19 your books?

20 MR. BRENT: That is right.

21 THE CHAIRMAN: Very much greater.

22 MR. THOMAS: Yes.

23 THE CHAIRMAN: In fact, it is?

24 MR. THOMAS: It is.

25 THE CHAIRMAN: I might suggest ---

26 MR. BRENT: I might suggest, to elaborate,  
27 that one of the reasons we have been hurt in the punch  
28 card field in the past few years has been the relative  
29 growth of our business. In other words our  
30 additions to assets in one year have been greater than --





1 the upward curve has been greater than loss, coming in  
2 the loss curve. We reach a plateau. Our computers have  
3 added to that.

4 THE CHAIRMAN: Do you do your accounting  
5 on approved basis?

6 MR. BRENT: On straight line.

7 THE CHAIRMAN: So that you are carrying on  
8 your balance sheet a provision being the difference  
9 between your tax reserves and your book reserves.

10 MR. BRENT: Another factor, as I mentioned,  
11 was the special provisions for re-equipment and  
12 modernization introduced in 1961. Had it not been for  
13 this, we would have been affected more seriously and  
14 sooner.

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RPS

1 THE CHAIRMAN: That reserve that I spoke of,  
2 Mr. Thomas, would be going down if the capital cost  
3 allowance were less than what you could take on your  
4 books or you would take on your books, am I not right?

5 MR. THOMAS: It isn't a reserve because,  
6 in fact, we write loss depreciation and it becomes dis-  
7 allowed if it is more than the capital cost allowance.  
8 This is why we have paid more taxes than would otherwise  
9 have been the case. We have actually paid taxes  
10 on it. It is not a reserve as such. It is less tax.

11 THE CHAIRMAN: I am thinking of the differ-  
12 ence between the tax you pay and the tax you accrue.  
13 The tax that you pay would be greater than the tax  
14 you accrue.

15 MR. THOMAS: No, we actually accrue and  
16 pay the same tax.

17 THE CHAIRMAN: You actually accrue and pay  
18 the same tax. You don't follow the approved method in  
19 the Accounting Bulletin dealing with the subject? I  
20 don't remember the number.

21 MR. THOMAS: No. To what you refer is that  
22 a great many companies have reversed the apparatus.

23 THE CHAIRMAN: That is what I am trying to  
24 do.

25 MR. THOMAS: We don't follow that.

26 THE CHAIRMAN: If you followed that you would  
27 have a negative reserve.

28 MR. THOMAS: That is right.

29 THE CHAIRMAN: Debit balance instead of  
30 credit balance.





1 MR. THOMAS: No one considers that good  
2 accounting.

3 THE CHAIRMAN: I am not sure about that.  
4 We will talk about that some other time.

5 COMMISSIONER PERRY: I am just wondering  
6 why the witness felt they would need double assurance  
7 of both a higher write-off and absolescence allowance.  
8 Surely if you were able to have a rate of write-off that  
9 would give you 90 per cent in four years, wouldn't  
10 this be pretty good?

11 MR. BRENT: Sure.

12 MR. THOMAS: Yes.

13 COMMISSIONER PERRY: The absolescence allow-  
14 ance introduces ~~the~~ a new factor and considerable complica-  
15 tions in the capital cost system as we now have it.

16 MR. THOMAS: By the same token if we were  
17 allowed for a provision for loss on disposal we wouldn't  
18 worry about rates.

19 COMMISSIONER PERRY: It is the alternative  
20 system to the capital cost allowance system which could  
21 have been introduced instead of the capital cost allow-  
22 ance system. I am not sure you can mix them because of  
23 the need of identifying the write-off, I would suspect.  
24 The beauty of the present system is that you don't have  
25 to do that.

26 ~~MR. BRENT~~ MR. BRENT: Certainly these could  
27 be alternative solutions to our problem, either one.

28 THE CHAIRMAN: Either the higher rate . . .

29 MR. BRENT: Or provision . . .

30 THE CHAIRMAN: . . . for the write-off of





1 losses.

2 MR. BRENT: Yes.

3 THE CHAIRMAN: I don't think we have any  
4 further questions, gentlemen. Mr. Brent, you put this  
5 forward very clearly and very well. Perhaps if you had  
6 done as well 30 years ago you would have made that  
7 first sale. It has been a great pleasure to have seen  
8 you. Thank you very much for appearing.

9 MR. BRENT: Thank you very much indeed.  
10 We appreciate this opportunity to present our views.

11 THE CHAIRMAN: We will have a 10 ten minute  
12 break.

13

14 ---A SHORT RECESS.

15

16 ---FOLLOWING THE SHORT RECESS:

17

18 THE CHAIRMAN: Mr. Secretary?

19 THE SECRETARY: Mr. Chairman, the second  
20 submission is being presented by British American Oil  
21 Company Limited. Mr. E.D. Loughney, President, is  
22 here this morning together with a number of colleagues.  
23 He will speak initially to the brief and introduce  
24 his colleagues to you. I would like to enter this  
25 brief into the record as Exhibit 254.

26

27 ---EXHIBIT NO. 254:

Submission of the  
British American Oil  
Company, Limited.

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SUBMISSION OF

THE BRITISH AMERICAN OIL COMPANY LIMITED

Appearances: Mr. E.D. Loughney Mr. J.F. Runnalls  
C.D. Shepard, Q.C. Mr. J.R. Hardie, C.A.

THE CHAIRMAN: Good morning, Mr. Loughney and gentlemen. We introduce to your our Commissioners whose names are before us. I would be very grateful, Mr. Loughney, if before you start if you would introduce your associates to us. We have read your submission with considerable interest. It is an important submission. We therefore asked our legal adviser and Counsel, Mr. Stewart to lead us in our questions, which does not mean we shall not address some ourselves. We will all get into the act.

Before that, Mr. Loughney, if you have anything to say to us either in amplification or summary or any other way we would be glad to hear it.

MR. LOUGHNEY: I would like to make an opening statement.

We appreciate the opportunity of appearing before your Commission and prior to making a short opening statement, I would like to thank the Commission for granting us a postponement of our hearing from October 28 until today. I had a long-standing commitment to speak to before the Board of Trade in Vancouver on October 28. My subject was the Outlook for the Oil and Gas Industry in Canada, and with your permission I would like to leave with you a copy of my speech, together with a booklet which is a digest





1 of a study recently completed by British American  
2 Oil; I will have more to say on this later and relate  
3 it to the subject here. I should now like to  
4 introduce my associates: Mr. C.D. Shepard, Q.C., Vice-  
5 President and General Counsel on my left; and on my  
6 extreme left Mr. J.F. Runnalls, Manager, Economics  
7 and Co-ordination Department; and on my right Mr. J.R.  
8 Hardie, C.A., Assistant Comptroller - Accounting and  
9 Taxation.

10 As stated in the submission itself, we have  
11 limited our remarks to a discussion relative to the  
12 Income Tax Act and mainly to the problems facing corpor-  
13 ations under this Act. While we feel that there are also  
14 matters which should be brought to your attention under  
15 the Federal Sales Tax Act and various provincial taxation  
16 statutes, we feel that these problems have been brought  
17 generally to your attention by other submissions made  
18 to your Commission. Our omission of reference to these  
19 taxes does not mean that we do not attach importance to  
20 the effect that tax policy of each level of Government has  
21 on the national economy. Your Commission will have  
22 to deal with questions such as the following:

23 Who carries the burden of a particular tax in  
24 the long run?

25 What is the effect of the general level of  
26 taxation, and the form of these taxes and  
27 their effect on the economic growth rate  
28 of the country?

29 Whether it is possible to clarify and simplify  
30 our tax laws and thus reduce the costs to both





1 Government and industry of administrative  
2 costs of these laws.

3 We are looking forward to your findings  
4 with great interest. However, we consider it appropriate  
5 to leave the discussion of these problems to the sub-  
6 missions of individual experts, research organizations  
7 and your own research staff.

8 We do feel that any discussion of the  
9 taxation of our industry must be looked at in the general  
10 area of economic conditions which will prevail over  
11 the next few years. In the natural resources industries  
12 where production involves large amounts of fixed capital,  
13 planning must look 10, 15 and 20 years into the future.  
14 For instance, British American Oil has recently completed  
15 a study of the demand for energy through to 1975, as  
16 mentioned in my opening remarks. I will not deal with  
17 this study in detail, but it is certainly evident that  
18 it is essential Canada be in a position to meet the  
19 greatly increased demands for natural gas and crude oil  
20 foreseen particularly in five to seven years hence.

21 We are forecasting that the demand for Canadian crude oil  
22 and natural gas liquids will increase from 735,000  
23 barrels per day in 1962 to approximately 1,330,000  
24 barrels per day in 1975. In the same period, natural gas  
25 sales are forecast to increase from 2.2 billion cubic  
26 feet per day to 5.7 billion cubic feet per day by 1975.

27 Capital for the development of these  
28 natural gas and crude reserves to meet these increased  
29 demands will be very substantial, and will be greater  
30 than the expenditures of \$6.7 billion dollars for the





1 1947-1962 period. In order to attract this capital  
2 it must be known in advance that a stable and equitable  
3 tax climate will exist during the period.

4 I am sure that you are aware of the history  
5 of the oil business in Canada, but I would like to take  
6 a few minutes to refresh everyone's memory. The oil  
7 business in Canada was, prior to 1948, primarily a  
8 manufacturing and marketing business, dependent on  
9 foreign sources for its raw material.

10 During the latter part of the war, in order  
11 to alleviate the shortage of oil in Canada, some attempts  
12 were made to stimulate exploration by tax incentives.  
13 These incentives, together with the Leduc and other  
14 significant discoveries, certainly did stimulate the  
15 production effort in Canada, and resulted in cash  
16 expenditures totalling 6.7 billion dollars being made  
17 in the period 1947 to 1962. Canadian  
18 production of crude oil and natural gas liquids increased  
19 from 20,000 barrels per day in 1946 to 735,000 barrels  
20 per day in 1962. Natural gas sales increased from 145  
21 million cubic feet per day in 1946 to 2.2 billion cubic  
22 feet per day in 1962.

23 The oil and gas industry in Canada has  
24 developed to its present stage, at least partly due  
25 to the tax climate which presently exists. We do not  
26 believe that the additional capital required to meet  
27 the demand for petroleum products in the future can  
28 be attracted to the industry, unless a more favourable  
29 - or at least, as favourable - a tax climate prevails in  
30 the future.





1 It should be noted that the petroleum  
2 industry bears a disproportionate share of the tax  
3 burden in relation to other energy sources. We have the  
4 paradoxical situation in Canada where electricity or  
5 steam used to provide motive power in industry or  
6 transport is not taxable, but where diesel fuel or natural  
7 gas are used for the same purposes, they are taxable.  
8 For example, electricity for use in trolley buses is  
9 a non-taxable commodity, but diesel fuel oil for buses  
10 is subject to both a provincial road tax as well  
11 as a federal sales tax. Also, to our knowledge, only  
12 two other commodities - liquor and tobacco - bear as  
13 high a share of taxes as at present borne by petroleum  
14 motor fuels.

15 I think I would be remiss if I did not also  
16 mention the contribution made by the petroleum industry  
17 towards solving the problem of Canada's balance of  
18 payments. In terms of Canadian dollars spent on oil and  
19 gas in international trade, we had in 1955 a deficit of  
20 close to 340 million dollars. In spite of significant  
21 increases in demand for petroleum products, this has  
22 declined to \$92 million in 1962, and we forecast it  
23 will decline to approximately \$60 million by 1965, and  
24 be in balance shortly thereafter. These calculations do  
25 not include the rather significant contributions made  
26 by sulphur or petrochemicals to the balance of payment  
27 position.

28 In closing I would like to express apprec-  
29 iation for the courtesty of the Commission in permitting  
30 these comments which I hope will form a useful background





1 to our formal submission.

2 THE CHAIRMAN: Thank you, Mr. Loughney.  
3 As I said before we in our turn are grateful to you  
4 for your help in our task. Mr. Stewart, I think you  
5 might proceed if you would be so kind.

6 MR. STEWART: Thank you, Mr. Chairman.  
7 Mr. Loughney, I have just opened up this pamphlet  
8 entitled Supply and Demand for Canadian Hydrocarbons,  
9 1962-1975 which you have handed to us with this open-  
10 ing statement. I notice at the bottom of page 8 it  
11 has to do with present and projected production of  
12 crude oil and natural gas liquids and another table  
13 on page 9 which deals with sales of residue gas.  
14 Each one of those is divided between domestic and  
15 export markets, in the one case, at least, regarding  
16 the crude and in the other as regards all sales.  
17 I take it that these two tables give us an indication  
18 of your projection of how both the export market and  
19 the domestic market for Canadian production will grow  
20 during this period.

21 MR. LOUGHNEY: That is correct.

22 MR. STEWART: Turning to the brief I would  
23 like to start my questioning, if I may, by dealing  
24 first with the items specifically affecting the oil  
25 industry which are dealt with starting at page 21. The  
26 first of these item is Section 83A of the Income Tax  
27 Act. I don't propose to take the time to discuss with  
28 you the history of Section 83A and its predecessor  
29 Sections, but I would like to come to page 25 of the  
30 brief where you set out certain conclusions which you





1 arrive at. The first of those conclusions, and I refer  
2 now to paragraph 46 on page 25, the first of the conclus-  
3 ions is that Section 83A doesn't represent a concession  
4 to the industry except possibly ~~as regards the cost~~ of  
5 acquiring ~~of~~ oil and gas rights and the cost of drilling  
6 successful producing wells. My first question is  
7 perhaps a rather simple one, but I wonder if there is  
8 any significance to the use of the word "drilling" in  
9 connection with the producing wells? Do you consider  
10 that the cost of exploration ~~and~~ regards producing  
11 wells might properly be included there?

12 MR. HARDIE: We don't so consider as  
13 far as our own business is concerned. This is considered  
14 to be an expense in our business.

15 MR. STEWART: In the industry as a whole  
16 is this, and I don't suggest this isn't the accepted  
17 practice, but is it also the accepted practice to treat  
18 exploration and drilling of successful wells as a  
19 capital expenditure?

20 MR. HARDIE: No, the exploration costs  
21 generally by industry are ~~expenses~~ current. They  
22 are not capital. The cost of drilling successful wells  
23 is capitalized by most companies.

24 MR. STEWART: I am told that there is a  
25 publication called Oil Accounting by Mr. Robert  
26 E. Waller which was published in 1956 by the University  
27 of Toronto Press.

28

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1 It contains this statement on page 35. He is  
2 referring, I may say, to the proposition that  
3 exploration expenses are treated by most companies as  
4 ordinary expense items rather than capital assets, and  
5 he says on page 35, dealing with exploration  
6 expenditures:

7 "This manner has much to  
8 recommend it and is an accepted  
9 accounting practice in the  
10 industry."

11 But then I believe he also considers acceptable in this  
12 work, because of its wide use, the treatment of  
13 exploration expenditure which involves those resulting  
14 in properties which are retained being capitalized, and  
15 the other exploration costs being written off, and  
16 he apparently comments in this book that this latter  
17 method is more in line with the accounting principles  
18 of matching costs and revenues.

19 Have you any comment on that?

20 MR. HARDIE: I think the majority of the  
21 major companies expense these expenditures of exploration  
22 entirely, whether it's in areas that are eventually  
23 proved productive or otherwise.

24 MR. STEWART: Thank you very much. Then  
25 you suggest also in paragraph 46 that there are two  
26 principal advantages to section 83A treatment of these  
27 costs. The first is that they can be charged in total  
28 as soon as the income position permits, and the second  
29 is that there is an unlimited carry forward of the  
30 expense.





1           Would you agree that these advantages, or in  
2 particular the unlimited carry forward, relate not  
3 simply to these items, that is cost of the properties  
4 and the cost of drilling successfully producing wells,  
5 but to all section 83A expenses?

6           MR. HARDIE: Yes.

7           MR. STEWART: In paragraph 48 you suggest that  
8 section 83A is unnecessarily complicated, and I don't  
9 think anyone would suggest that it is a short or  
10 simple section. Have you any specific suggestions you  
11 can make to the Commission as to how it can be  
12 improved?

13           MR. HARDIE: I think we suggest in the brief  
14 that we might transfer out of section 83A the part that  
15 is considered by the industry to be expense. Rather  
16 than have this complicated system here, which includes  
17 the various allowances in different dates, perhaps  
18 ~~this~~ <sup>this</sup> could be moved out into another Act which  
19 only applied to the prior periods or out of the general  
20 section that dealt with the deductibility of current  
21 expenditures.

22           MR. STEWART: Well then I have put it to  
23 another company in your industry in the past that  
24 possibly in a case of this kind, where we are dealing  
25 with a very complex and difficult problem, there might  
26 be something to be said for asking the Department of  
27 National Revenue to issue some sort of a memorandum or  
28 booklet which dealt with this interpretation of the  
29 provision; of the way in which it intended to apply  
30 them.





1           Would you consider that any document of that  
2 sort would be helpful or otherwise?

3           MR. HARDIE: Yes. I believe that this would  
4 be helpful. It would tell us what the Department  
5 were contemplating doing, which we now do not find out  
6 for a period of years.

7           MR. SHEPARD: It is pretty hard for a lawyer  
8 to keep quiet when a question like that is asked. I  
9 would say I agree with Mr. Hardie's answer, assuming,  
10 Mr. Stewart, that the memorandum would not have a  
11 binding legal effect on the taxpayer. It was not your  
12 intention that it would be that kind of a memorandum?  
13 It would be one of intention which could still be subject  
14 to an interpretation by the courts, if the taxpayer  
15 thought that was desirable?

16           MR. STEWART: I take it it would be binding  
17 neither on the taxpayer nor on the Department.

18           MR. SHEPARD: Yes, sir.

19           MR. STEWART: Then in paragraph 49 you refer to  
20 the fact that under the 1962 amendments, and in particular  
21 I take it under subsection 5b of section 83A, the proceeds  
22 of sale of properties are brought into income without  
23 any credit being allowed for the cost of the particular  
24 properties to the vendor, and you say at the bottom of  
25 page 26 that this appears to contravene the basic  
26 concept of the Act which taxes income but allows the  
27 deduction of the relative cost.

28           Then you go on to say that you appreciate it  
29 might be difficult to cure this defect without opening  
30 some loopholes which would not be desirable, but that you





1 nevertheless think that some relief should be provided.  
2 Now you obviously recognize that there would be a  
3 problem in allowing this deduction. Could you perhaps  
4 give us some illustrations of the type of problem which  
5 would arise?

6 MR. HARDIE: Well, if the sale of leases  
7 acquired prior to April 10th, 1962 were not taxable  
8 income, it would be possible for a company, that had a  
9 worthless lease, to perhaps sell it to someone else for  
10 a sum of money and the other people really are just  
11 buying a tax deduction rather than a lease so obviously  
12 something had to be done in this regard and they chose  
13 to do it in this way, by not allowing the deduction of  
14 the original cost.

15 If they are going to tax the sales value of  
16 the lease, then at least the taxpayer, it would appear,  
17 should be entitled to deduct what he paid for the lease  
18 in the first place.

19 MR. STEWART: The point you are making, I take  
20 it, is that unless there had been a provision, such as  
21 5b included, the property might have been transferred  
22 at inflated values?

23 MR. HARDIE: That is right.

24 MR. STEWART: All right, but we are now in a  
25 position that paragraph 5b is included and you are  
26 suggesting that it be amended so as to permit the  
27 deduction of acquisition costs. There again, I suppose  
28 that one problem which arises is would acquisition costs  
29 of a particular property represent their fair value at  
30 the time of the transaction. Is that the point you





1 are making?

2 MR. HARDIE: Do you mean of the sale trans-  
3 action?

4 MR. STEWART: Yes.

5 MR. HARDIE: No. The cost may be less, the  
6 original cost to the taxpayer may have been less than  
7 the sale value.

8 MR. STWART: Yes. I don't think I have made  
9 my question clear. Let us suppose that a taxpayer has  
10 a property which cost it, having regard not only to its  
11 original acquisition cost but to expenditures which have  
12 been made on the property, X dollars, and that in actual  
13 fact the fair market value of that asset is substantially  
14 less than X. If there is a blanket allowance of cost  
15 under 5b, then the vendor of the property would  
16 receive a deduction which might be substantially in excess  
17 of the actual value of the property at the time of his  
18 resale of it.

19 MR. HARDIE: This is right, but this is the  
20 case in a case where any item is traded in which is  
21 considered to be taxable income. In other words, a  
22 merchant buying merchandise and selling it, if the resale  
23 value of this is less than what he originally paid for  
24 it, he is still entitled to deduct his total cost of the  
25 merchandise that he is selling.

26 Our feeling is that if leases are to be  
27 considered in this category of merchandise, in that the  
28 sale of these leases is taxable income, the cost of these  
29 leases should be allowed as a deduction in calculating  
30 the profit which would be subject to tax.





1 MR. STEWART: On that basis, the allowance of  
2 cost would not present a problem in your opinion. What  
3 other type of problem might arise if cost were allowed?

4 MR. HARDIE: The only thing would be to include  
5 in the transaction some leases which perhaps had no  
6 value but had some cost which you wished to recover.

7 MR. STEWART: Well now, you suggest in paragraph  
8 50 on page 27 that the 1962 amendments to Section 83A,  
9 by which I take it you refer to subsection 5a and the  
10 related subsections, you suggest that these amendments  
11 should not apply if a transaction is between taxpayers  
12 who are not dealing at arm's length.

13 Now let me ask you if you would agree with the  
14 view which I think has been expressed that under the  
15 1962 amendments, and under section 83A as amended, oil  
16 in the ground is treated substantially as inventory for  
17 tax purposes?

18 MR. HARDIE: That is right. I think this is  
19 the effect of this.

20 MR. STEWART: Is it not a fact that under the  
21 general scheme of this Act, and I refer in particular  
22 to Section 17 non-arm's length transactions, involving  
23 inventory, are supposed to be carried out at fair  
24 market value?

25 MR. HARDIE: Yes. This is true. This is the  
26 effect of Section 17.

27 MR. STEWART: What you are suggesting is that  
28 in this respect there be rules with regard to petroleum  
29 properties which differ from those which relate to other  
30 transactions, or other industries?





1 MR. HARDIE: Yes, because while the Government  
2 seems to have considered that oil in the ground is an  
3 inventory figure, that the industry considers these  
4 as capital assets.

5 THE CHAIRMAN: Which section 17 applies Mr.  
6 Stewart? That edition?

7 MR. STEWART: I don't think that section 17  
8 would have applied, Mr. Chairman, if it had not been for  
9 the introduction of these new amendments. I don't think,  
10 or at least I don't recall it being suggested prior to  
11 the introduction of 83A, 5a; and 83A,5b that oil in the  
12 ground, or petroleum properties should be treated as  
13 inventory.

14 THE CHAIRMAN: They would be under these  
15 amendments?

16 MR. STEWART: The effect of these amendments  
17 is that your acquisition cost of petroleum properties  
18 is deductible, and that the proceeds of the petroleum  
19 properties is to be brought into inventory so that the  
20 treatment is the same as the treatment of inventory.

21 Well, I will come back Mr. Hardie to that  
22 proposition of yours in a moment or two when we are  
23 dealing with the question of depletion. Now would  
24 you comment on this proposition that under the 1962  
25 amendments the industry is permitted, under Section 83A,  
26 to deduct all its exploration and drilling expenses,  
27 including property acquisition costs, so far as expense  
28 incurred after the coming into effect of the amendments  
29 are concerned?

30 MR. HARDIE: Yes. This is right.





1 MR. STEWART: Now would you comment on this  
2 proposition that this treatment of exploration and  
3 drilling expenses and of land acquisition costs is more  
4 favourable than the corresponding U.S. treatment of such  
5 limited expense? What I have in mind in this regard,  
6 I have two particular points in mind, and of course you  
7 may comment on others that should be taken into account  
8 but as I understand it, under the U.S. law expense  
9 relating to producing properties is required to be  
10 capitalized and, secondly, in the United States the  
11 expense relating to non-productive properties is treated  
12 as a current expense in the year it is incurred, so  
13 that it can be recovered if there are losses only over  
14 the normal loss carry forward period.

15 Now as far as those two points are concerned,  
16 and as I understand them, these costs are allowed to  
17 be deducted, and as we have said earlier, there is an  
18 indefinite carry forward of the deduction, so that I  
19 put the question to you again: Would you consider that  
20 the Canadian treatment of this exploration and drilling  
21 expense, and land acquisition cost is now more favourable  
22 than the corresponding U.S. treatment?

23 MR. HARDIE: There is just one comment I would  
24 like to make first in connection with the statements  
25 that you made about the U.S. treatment. The expense  
26 incurred in areas where the taxpayer has a non-producing  
27 property in the United States is required to be  
28 capitalized to that producing property and only allowed  
29 as a tax deduction upon abandonment of the lease.

30 MR. LOUGHNEY: That one comment there, that only





1 holds provided that the taxpayer acquires property on  
2 which he has performed his geophysical work. He can take  
3 an option, do the work, the results are negative, he  
4 acquires no interest in the lease. All a matter of  
5 expense in the year in which it is incurred.

6 There is a second point too, Mr. Stewart, in  
7 development drilling. The cost of development drilling  
8 in the United States is expensed the same as it is in  
9 Canada.

10 MR. STEWART: Subject to those two points, what  
11 would your comment be on the proposition that I  
12 ~~announced~~?

13 MR. HARDIE: The timing is an advantage in  
14 Canada.

15 THE CHAIRMAN: Which time do you refer to? The  
16 indefinite carry forward date, is that the time you  
17 mean?

18 MR. HARDIE: Yes, and the other, the fact  
19 that the expenditures are allowed currently in Canada  
20 if you have income against which you can claim.

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1 MR. STEWART: Well now....

2 MR. HARDIE: Could I make another comment in  
3 connection with this. Perhaps this advantage of the  
4 indefinite carry forward has a particular significance  
5 in Canada in the development of Canadian industries  
6 and in that ~~in the way the Canadian industry has developed~~  
7 ~~there has accumulated~~ large amounts of these expenditures  
8 in a relatively short time. When production wasn't  
9 available when because of overall limitations on the  
10 production income wasn't available for these expenditures  
11 to be written off against ~~five years~~.

12 MR. STEWART: I take it in the course of the  
13 next ~~twelve years~~, and I am making this observation from  
14 a recollection of Mr. Loughney's opening statement, if  
15 in the course of the next twelve years there is going  
16 to be more expenditures in industry in Canada than there  
17 has been since 1947 and the production is, let us say  
18 expected approximately to double then we are going to  
19 be for at least the next twelve years in somewhat a  
20 similar situation.

21 MR. SHEPARD: I wonder if I might make one  
22 comment, Mr. Stewart. In asking questions and receiving  
23 answers you have from Mr. Hardie of the U.S. treatment  
24 of a portion of our industrial activity, we would  
25 have inferred that the picture of that industry in  
26 Canada versus the picture of the industry in the States  
27 must be viewed with other elements. The whole of  
28 the effect of all the factors of the American tax  
29 structure affecting the exploration and production  
30 industries plus a similar situation here, and this





1 necessarily includes the overall consideration of the  
2 impact of ~~Section~~ 83A plus depletion, while it is true  
3 there is a time element of five years for carry-overs  
4 in the States, if we didn't get ~~that~~ depletion because  
5 of 83A deductions we have lost that favour so  
6 there should be that consideration, and I just thought  
7 perhaps that should be mentioned in the record.

8 MR. STEWART: I quite agree with that, Mr.  
9 Shepard and I am going to ask you a little later on to  
10 comment on the American rules with regard to depletion.  
11 Before we leave the question of section 83A, however,  
12 and I come back here to the comment that Mr. Hardie  
13 made, that certain items are treated by the industry  
14 in Canada as capital items for corporate purposes  
15 regardless of the tax treatment. It has been suggested  
16 I understand that these expenses which are presently  
17 allowed as ~~current~~ deductions under section 83A should  
18 be capitalized for tax purposes and either treated as  
19 subject to capital cost allowance or ~~amortized~~ over  
20 some specific period. What if any comments would you  
21 care to make on those alternative treatments?

22 MR. HARDIE: I don't think we would agree with  
23 the changes. It was pointed out in Mr. Loughney's  
24 opening remarks we consider that with the capital  
25 requirements that are going to be needed in the ~~future~~  
26 years we need, at least as favourable a tax climate  
27 as existed in the past, ~~this~~ this would certainly not be as  
28 favourable treatment if the time element is going to  
29 be changed.

30 MR. LOUGHNEY: If I may, Mr. Stewart, the





1 question of geophysical expenses, expenses of that  
2 nature, ~~very preliminary~~ the work in the money spent may  
3 not be productive at all as far as the taxpayer is  
4 concerned. This is certainly true for oil. Many, many  
5 miles of an area are looked at from the point of view  
6 of high oil production and other types of technical  
7 tools are used in the survey for all, but it is only  
8 research. It doesn't necessarily follow that any field  
9 of any sort may be found. It would be quite an  
10 imposition on the company to capitalize all of the  
11 expenses when very little of it results in anything of  
12 a nature of an asset.

13 MR. STEWART: Well, I think this leads us  
14 into the discussion of depletion.

15 MR. CHAIRMAN: Well, before you move to  
16 depletion I would like to clean up some areas. There  
17 are about two or three questions I have. Perhaps some  
18 of the other Commissioners may have one or two. I  
19 didn't follow the questions, conclusions that we have  
20 arrived at. It has been suggested that section 83A  
21 should be restricted to those matters which are not  
22 to be deductible according to ordinary rules of the  
23 accounting. In fact what would remain under 83A would  
24 be those which are permitted by way of incentive I would  
25 gather from what I read here. I wouldn't see any good  
26 reason for altering the Section to restrict it  
27 if the section picks up what is needed and gives you  
28 that. I don't believe that that can be of any  
29 significance. Therefore, perhaps, I didn't understand  
30 the points.





1 MR. HARDIE: The expenditures that are included in  
2 Section 83A, now included ~~of~~ items which the industry  
3 considers normal business expenses. In other words  
4 some of these things are items which are taken care of  
5 really in other sections as far as other businesses  
6 are concerned. Salaries and wages, there is  
7 depreciation of equipment -- in other words capital  
8 cost allowance that the Act allows. The suggestion was  
9 perhaps these things are better dealt with in the  
10 section of the Act that deal with these specific kinds  
11 of expenses.

12 THE CHAIRMAN: It makes no difference to you  
13 whether they are dealt with two or three times in the  
14 Act, does it? Do you suffer by virtue of the fact they  
15 are in there?

16 MR. HARDIE: No, we don't suffer. It was  
17 a merely a question of how complicated Section 83A is.

18 THE CHAIRMAN: That envisages a general  
19 tidying up of the section.

20 MR. LOUGHNEY: Just a minute, please. Go  
21 ahead.

22 COMMISSIONER PERRY: Just before you leave  
23 that, there may be a danger that the Department, relying  
24 on some of the ~~jurisprudence~~ jurisprudence would say a good many  
25 of the expenditures in 83A were in the class of nothings  
26 that ~~they~~ they were pre-production expenses,  
27 not necessarily related to carrying on of the business,  
28 so that you might have to make your case that some of  
29 the expenditures which are now allowed by Statute  
30 are ordinary business expenditures and deductible under





1 other provisions of the law. Quite a lot of  
2 the jurisprudence under which nothings are created would  
3 apply in your own case.

4 MR. SHEPARD: I would say as a lawyer if there  
5 is any danger of increasing the number of nothings we  
6 would be against it.

7 COMMISSIONER PERRY: 83A diminishes the area  
8 of nothings very considerably in your industry.

9 MR. SHEPARD: I can see your point, and I think  
10 you are right, sir.

11 THE CHAIRMAN: Paragraph 49 refers to certain  
12 costs not being deducted upon the sale of some mineral  
13 rights. I am not very clear what costs, in fact, I  
14 don't understand what costs are not deducted in those  
15 circumstances. I think I missed the point.

16 MR. HARDIE: These are the costs, the original  
17 acquisition costs of leases acquired prior to April 10th,  
18 1962.

19 THE CHAIRMAN: When the leases are sold the  
20 profit or loss resulting is after the deduction of these  
21 costs?

22 MR. STEWART: No.

23 MR. HARDIE: The entire sale proceeds of these  
24 leases are deductible income.

25 THE CHAIRMAN: That is the way the Statute  
26 now reads?

27 MR. STEWART: Mr. Chairman, perhaps I could  
28 state my understanding of the situation to find out  
29 whether it agrees with that of these gentlemen. In 1962,  
30 for the first time, I think, in our legislation of





1 the subsection of 83A subsection 5a it was provided that  
2 the cost of acquisition of certain properties, certain  
3 types of properties which were acquired after April  
4 10th, 1962 should be deemed to be for tax purposes  
5 exploration and ~~drilling~~ expenses and therefore deductible  
6 in the computation of income. Then the Department  
7 said, if we are going to allow these deductions we must  
8 provide that the profit of sale of properties of this  
9 character must be brought into Act . The subsection  
10 which provides for that, the basic subsection is sub-  
11 section 5b. Under subsection 5b you bring into income  
12 the proceeds of sale regardless of whether the particular  
13 property was acquired before or after April 10th, 1962,  
14 Is that the fact?

15 MR. HARDIE: Yes.

16 THE CHAIRMAN: I see. Thank you very much  
17 indeed. Anything else before we move on to depletion?  
18 Go ahead, Mr. Stewart.

19 MR. STEWART: Well now gentlemen in paragraph  
20 51 of your brief which is the first paragraph under  
21 the Depletion heading you indicate that it is generally  
22 considered that the purpose of depletion is to allow  
23 the owner of a wasting asset the right to recover the  
24 value of the asset as it is used up by production. You  
25 suggest that in these circumstances the depletion  
26 allowance does not represent a concession to the  
27 industry. Well now, I would like in the first place  
28 to make sure that this word "value" which is used in  
29 the second sentence in paragraph 51 has no significance  
30 other than cost. Are you suggesting that the purpose





1 of depletion is or should be to permit ultimate value  
2 to be covered as opposed to the cost of the property to  
3 be recovered?

4 MR. HARDIE: The industry considers that these  
5 leases are capital assets and then ~~this is~~  
6 realizations of capital assets if you sell, and  
7 therefore this is the value of it at that point.

8 MR. STEWART: So you are using value in the  
9 sense of capital cost?

10 MR. HARDIE: No, I think we are using it as  
11 value, what it is worth.

12 MR. STEWART: Let me put this proposition to  
13 you: If you acquire today a particular drilling  
14 property at a cost of \$100,000.00 and you expend another  
15 \$100,000.00 on the property so it comes to \$200,000.00,  
16 but then through some good fortune you find that the  
17 property has a value of \$5 million, are you suggesting  
18 that the purpose of the depletion allowance is to  
19 permit you to recover \$5 million as the tax deduction,  
20 or \$200,000.00.

21 MR. HARDIE: We are suggesting that the  
22 purpose of the depletion allowance is that we should not  
23 have to pay tax on the entire realization of this  
24 property as income. . The depletion allowance in  
25 the Act is not tied to any sort of value at all  
26 other than as a percentage of the income derived from  
27 it.

28 MR. STEWART: That is correct.

29 MR. HARDIE: We are suggesting that what this  
30 allowance is is to give you a portion of this value





1 back tax free because it is, in fact, a realization of  
2 the capital assets.

3 MR. STEWART: Well now, in that event,  
4 let me put this to you: Is it not the normal view in  
5 other industries other than the extractive industries  
6 that it might be reasonable to be permitted to write  
7 the capital cost of a particular asset off over the  
8 useful life of the asset, but that that is the limit of  
9 the tax deduction that is allowed in such industries  
10 in respect of the property.

11 MR. HARDIE: This is correct, but if an asset  
12 is realized on, the only part of the income that is taxed  
13 is the amount up to the amount of the income that  
14 has already been claimed as a deduction.

15 MR. STEWART: Quite so.

16 MR. HARDIE: Whereas the only way that an oil  
17 property is realized on by normal operation is by using  
18 up the oil that is contained in it and our contention  
19 is that the depletion allowance is to let you get some  
20 of the realization back of the realization on capital  
21 rather than on income.

22 MR. STEWART: Well then, let me go back to the  
23 hypothetical case where we have a property on which  
24 you have expended \$200,000.00, and let us assume that  
25 production is just about to begin on that property and  
26 you receive and are attracted by an offer of \$5 million  
27 for the property. It has been suggested to this  
28 Commission, I think, that if you would sell, if a  
29 taxpayer in those circumstances sells the property  
30 for \$5 million then the excess of the \$5 million over





1 the cost which in this hypothetical case would be  
2 \$4,800,000.00 should in some way be subject to depletion  
3 in the hands of the vendor. Now, do you go that  
4 far? Are you talking about receiving depletion as the  
5 property  
6 is productive of petroleum products?

7 MR. HARDIE: I think there is quite a good  
8 argument for the sale value of leases to be considered  
9 as depletable income since the cost of leases reduces  
10 the depletion allowance.

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1 MR. STEWART: Let me proceed, then, to discuss  
2 with the you the affect of Section 83A. I think we have  
3 agreed that, at least with regards to properties  
4 acquired after April, 10th., 1962, ~~that your acquisition~~  
5 costs and exploration and drilling expense can be  
6 recovered under Section 83A.

7 MR. HARDIE: That is right.

8 MR. STEWART: So that any depletion, which you  
9 receive, is over and above actual cost?

10 MR. HARDIE: Yes, that is true.

11 MR. STEWART: We have, of course, the problem  
12 in this industry of pre-1962 costs, if I may call them  
13 that, which can only be recovered if they are recovered  
14 at all through the depletion allowance. These are costs  
15 which were not deductible as they were incurred and  
16 cannot be carried forward under Section 83A. Have you  
17 any idea how much is involved in the industry as a whole  
18 in that type of cost?

19 MR. HARDIE: I do not have any information like  
20 that.

21 MR. STEWART: In paragraph 52 you are critical  
22 of the fact that in calculating the depletion base  
23 section 83A expenses must be deducted, and you point  
24 out later in your submission that this problem is  
25 accentuated under the 1962 amendments because land  
26 acquisition costs are treated as Section 83A expenses.  
27 As I understand the working of the current rules,  
28 depletion on this basis is not simply deferred but is  
29 lost for all time. You agree with that?

30 MR. HARDIE: Yes.





1 MR. STEWART: But, I would like to get your  
2 reaction to this. So long as the depletion allowance  
3 is not on a property by property basis but is related  
4 to the total production income of the taxpayer, is this  
5 not pretty much inevitable that Section 83A expenses  
6 must be deductible? The reason that I make that  
7 suggestion to you is that if you were going to be  
8 allowed all these expenses in the computation of income,  
9 then does it not follow that you should be required to  
10 take them in the computation of production income?

11 MR. LOUGHNEY: You are speaking of Section 83A.

12 MR. STEWART: Yes.

13 MR. HARDIE: I think, if I get your question  
14 correctly, that what you are suggesting is that under  
15 the present rules this is required, and I agree with  
16 this -- this is what is required. If you are going to  
17 change -- and this is what we suggest, that a change be  
18 made -- this is going to require some changes in the  
19 rules.

20 MR. STEWART: Is it going to require to get  
21 away from the present system of taking the properties  
22 as a whole, and is your suggestion appropriate only if  
23 depletion is allowed on a property by property basis?

24 MR. HARDIE: The change can be of one or two  
25 different kinds. It could be on property by property  
26 basis and require only the deduction of related  
27 expenses or expenses related to the actual production;  
28 or alternatively it could be changed to some sort of  
29 gross allowance.

30 MR. LOUGHNEY: It could be field or area.





1 Fields, for example, are designated by the Conservation  
2 Boards of the respective provinces and ~~are the property~~ of  
3 the taxpayer. Any particular field could be dealt with  
4 as a single property.

5 MR. STEWART: That is perhaps an extension of  
6 the property by property basis. You are taking groups  
7 of properties by groups of properties.

8 MR. LOUGHNEY: In a way, it is yes. The way  
9 our business operates, it is not long after a field is  
10 found, that initial wells are discovered, the development  
11 and drilling takes place. And then, in a great many  
12 fields we unitize the field and then it becomes a single  
13 property. We all have the undivided interest in any  
14 single property as opposed to separate properties. I  
15 think this question really goes to the point of whether  
16 in an extractive industry you are entitled to  
17 depletion allowance or not. If you are entitled to the  
18 depletion allowance, it does not seem reasonable that  
19 allowance that you get under Section 83A, while it is  
20 certainly desirable, at the same time they have the  
21 effect of taking in from us depletion allowance granted  
22 by the Act. The company that is carrying on an active  
23 exploration program needs substantial reserves for a  
24 good rate of production, but still the effect of this  
25 program and the charges against Section 83A could be  
26 of such a magnitude that he would never enjoy any  
27 depletion allowance. This has been true in a number  
28 of companies.

29 MR. STEWART: Perhaps I can put this case to  
30 you because it is more than likely that I have not





1 appreciated the problem. Let us take the case of an  
2 exploration and production company which has this Section  
3 83A allowance which is undoubtedly very important to  
4 it. Before it is in the position of paying taxes at  
5 all, it must have absorbed this Section 83A expense.

6 MR. LOUGHNEY: That is correct.

7 MR. STEWART: You say that what we should do  
8 so far as depletion is concerned is allow depletion  
9 without regard to Section 83A production. This  
10 particular exploration and production company, that I  
11 speak of, can have no taxable income from which to  
12 deduct depletion until it has income, and it cannot  
13 have income until it has carried forward its exploration  
14 and drilling expense.

15 MR. LOUGHNEY: What is the incentive for that,  
16 and the company to spend more money generating more  
17 deductions under Section 83A when the risk is so high  
18 in our business, as you all know. It is the type of  
19 dollars we are trying to create in depletion. To drill  
20 holes is very expensive, and a hole may prove to be  
21 a dry hole.

22 THE CHAIRMAN: Your ~~primary~~ incentive is  
23 profit.

24 MR. STEWART: This is a different question,  
25 the one I am putting to you. What I am swinging on is  
26 how the question of depletion arises in the case of a  
27 production company until Section 83A expense has all  
28 been carried forward -- how does it arise because  
29 depletion, if I understand it correctly, is a deduction  
30 from taxable income. This company has not any taxable





1 income until it has carried Section 83A expense forward.

2 MR. LOUGHNEY: We prefer we be back on some  
3 kind of property basis whether property by property.  
4 Then, Section 83A deductions are deductions just to be  
5 covered from a property and then the balance of the  
6 income from that property is subject to depletion  
7 allowance. This generates the funds that are needed to  
8 carry on further exploration. Otherwise, there is the  
9 person who comes in and buys the property, gets Section  
10 83A deduction from acquisition and is a producing  
11 property, and has no further expense other than  
12 developing of drilling, nothing in the way of  
13 exploration. In the end, he receives more benefit  
14 than a company who is seriously carrying on an  
15 exploration program to improve the oil and gas reserves.  
16 If we reach the production capabilities in Canada,  
17 that our study indicates, they are ahead of us.  
18 Somebody has got to spend that kind of money.

19 MR. STEWART: I come back to what I was  
20 suggesting to you a few moments ago, that perhaps the  
21 importance for depletion purposes of eliminating the  
22 requirement of deducting this Section 83A expense in  
23 the computation of the depletion base, the importance  
24 of making that change may arise really only if you  
25 are, for depletion purposes, on a property by property  
26 basis?

27 MR. SHEPARD: Or a group. I think it is  
28 important from the standpoint of administration that  
29 the group basis would substantially reduce the detailed  
30 administration of that kind of provision over a property





1 by property basis. In a field, there might be as many  
2 as 400 or 500 wells.

3 MR. STEWART: Yes. You suggest the combined  
4 effect on present rules, with regard to Section 83A  
5 and depletion, is to discourage explorations and  
6 drilling. I suppose what you mean really is not that  
7 there is active discouragement but your incentive to  
8 go on exploring and drilling is reduced?

9 MR. LOUGHNEY: Yes.

10 MR. STEWART: You urge, in paragraph 57 of  
11 your brief on page 30, that our present depletion  
12 provisions be liberalized so that exploration would be  
13 stimulated. I appreciate, of course, that one change  
14 in the rules that you would like to see is the  
15 termination of the obligation to deduct Section 83A  
16 expense. What other liberalization have you in mind?  
17 What, if any, system of depletion would you like to  
18 see introduced in this country?

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1 MR. HARDIE: I think our main request here is  
2 that we go on to a separate property or separate area  
3 basis which does not require the deduction of what I  
4 refer to as non-related exploration cost.

5 MR. STEWART: Yes. Now if we are on a basis  
6 of that sort, would you be content with the present  
7 basic approach under which <sup>the</sup> allowance is a percentage of  
8 production income, provided the production income is  
9 on this area by area or property by property basis?

10 MR. HARDIE: I think we would be happy with  
11 that arrangement.

12 MR. STEWART: You are not advocating then,  
13 for this country, the type of depletion allowance which  
14 is in effect in the United States at the present time  
15 where, as I understand the allowance, it is based on  
16 gross income with certain limitations.

17 THE CHAIRMAN: I think it is optional on gross  
18 is it?

19 MR. STEWART: As I understand it, the American  
20 system, and these gentlemen will correct me if I am  
21 wrong, is  $27\frac{1}{2}$  per cent of gross income property by  
22 property with a limitation of 50 per cent of taxable  
23 income in the case of each property, provided that if  
24 cost depletion on the unit production basis produces  
25 a higher amount, larger amount, then you take cost  
26 depletion.

27 MR. HARDIE: That is true.

28 MR. STEWART: Now from your point of view is  
29 there any preference between that type of system and  
30 the production income system we have in this country





1 at the moment?

2 MR. HARDIE: It would appear, from what we  
3 have looked at, that it produces about the same amount  
4 of allowance.

5 MR. STEWART: That applies, I understand, if  
6 the amount that you expend on current exploration is  
7 within a particular range?

8 MR. HARDIE: If you are only going to have to  
9 deduct the exploration in the area that belongs to the  
10 productive wells that are producing the income, we  
11 think this will give us approximately the same amount  
12 of allowance as is obtained under the U.S. allowance.

13 MR. STEWART: And this is on the 33 1/3 per  
14 cent basis?

15 MR. HARDIE: Yes.

16 MR. STEWART: Well now if you consider --  
17 perhaps I should put two questions to you together. Do  
18 you consider that the object of depletion allowance,  
19 or that one object of depletion allowance is to stimulate  
20 exploration? If the answer to that question is in the  
21 affirmative, is there any means by which, through  
22 depletion allowance or otherwise, we can encourage  
23 the explorer as opposed to the person who purchases  
24 proven acreage and, at the moment, gets some kind of  
25 an allowance?

26 MR. LOUGHNEY: Depreciation allowance provides  
27 the funds to encourage the explorer. That is the theory  
28 of your depletion allowance. Now I believe your  
29 question really goes back the other way: The person who  
30 is not prepared to spend exploration dollars, is he





1 entitled to the same treatment? Am I correct?

2 MR. STEWART: That is right. What I am really  
3 trying to get at is, in your opinion, should we be  
4 giving, through our tax laws, some special incentive  
5 to encourage exploration as such?

6 MR. LOUGHNEY: We have had in Canada over the  
7 years some forms of incentive tax relief, such as the  
8 deep hole tax credits we received up until a few  
9 years ago. I think, by and large, the depletion  
10 allowance related to a property or field, together with  
11 Section 83A would provide the necessary incentives and,  
12 in turn, the cash flow that is necessary for a company  
13 such as our own to carry on an adequate exploration  
14 program.

15 MR. STEWART: Thank you very much. Now as you  
16 know, the depletion allowance to the extractive  
17 industries which have been in effect in the United  
18 States, have been under attack there for a good many  
19 years and I would like to explore with you, very briefly,  
20 the basis of the attack that has been made on them and  
21 get your views as to whether or not the same considerations  
22 are material here.

23 One of the points, as I understand it, which  
24 is made in the United States arises from this: Is it  
25 considered that the after tax return in the petroleum  
26 industry is normal, or abnormal and if it is abnormal,  
27 is it abnormally low or abnormally high?

28 MR. RUNNALLS: We have some figures based on  
29 shareholders equity. The only information we have been  
30 able to develop in this area has been on a return of





1 shareholders equities which, of course, is not a very  
2 good yardstick in comparing different industries because  
3 of the method of different accounting practices in the  
4 various industries.

5 MR. STEWART: What emerges? Have you figures  
6 as to the average or typical return in this industry  
7 and possibly some other key industries?

8 MR. RUNNALLS: Yes. There has been, in the  
9 oil industry, a deterioration over the past ten years,  
10 and whereas this is true in some of the other  
11 industries, it has not been as great.

12 The pulp and paper industry over the past ten  
13 years, on the basis of return on shareholders equity,  
14 would average about 12 per cent,  $11\frac{1}{2}$  to 12 per cent.  
15 While this is not true in the oil industry, and  
16 particularly for the past few years, there has been  
17 deterioration because of the highly competitive  
18 marketing conditions within that aspect of our  
19 operations.

20 MR. STEWART: What would be the sort of typical  
21 return in the petroleum industry?

22 THE CHAIRMAN: For the same period of ten or  
23 twelve years.

24 MR. RUNNALLS: It has ranged from 7.2 per cent  
25 to 12.1 per cent. Whereas, in the pulp and paper the  
26 low is 9.3 and the high is 14.6 per cent.

27 MR. STEWART: The pulp and paper industry is  
28 another natural resource industry. Have you got  
29 figures for other industries as well?

30 MR. RUNNALLS: We have figures for iron and





1 steel. Of course, in the iron and steel area this  
2 includes a range of manufacturers and really does not  
3 cover the mining aspects of it other than what someone  
4 like Steel Company of Canada would have tied up in the  
5 way of mining resource. Their range is, in this same  
6 period, from a low of 7.5 per cent to a high of 12.1  
7 per cent return on shareholders equity.

8 MR. STEWART: Let me put it to you this way  
9 Mr. Runnalls: I take it that you would not consider  
10 that the return in the petroleum industry on this  
11 basis is abnormally high?

12 MR. RUNNALLS: That is correct.

13 MR. STEWART: As I understand the argument which  
14 is developed in the United States, if your after tax  
15 return in this industry is not abnormally high, then  
16 where you have a depreciation allowance which is not  
17 available to industry as a whole, it must follow that  
18 your pre-tax earnings are abnormally low?

19 MR. RUNNALLS: That is right.

20 MR. STEWART: So that the question which is  
21 raised is whether the country as a whole are indirectly  
22 subsidizing through a depreciation allowance an industry  
23 where the return before tax is abnormally low. Now what  
24 comment would you make on that particular criticism of  
25 the tax treatment of the petroleum industry?

26 MR. LOUGHNEY: Are you speaking of the United  
27 States now, or Canada?

28 MR. STEWART: I am speaking of the United  
29 States because I am basing what I say on what has been  
30 said in the United States but I am naturally wondering





1 whether, if the point is valid there, it is not also  
2 valid here.

3 MR. LOUGHNEY: Well part of it is the inherent  
4 nature of our business. Of course, the amount of money  
5 -- I am speaking now for British American because I  
6 cannot speak generally for the industry in the United  
7 States. I am not that familiar with it, but the amount  
8 of money that we spend in our exploration effort is  
9 relatively high in comparison to our total capital  
10 expenditures in the year's time, and the return often-  
11 times is not directly related to the time in which your  
12 money is spent. Your money may be spent years ahead  
13 of the actual return from the program.

14 We are carrying on an active program at the  
15 present time. It may be five years from now before we  
16 realize much profit from that. I do not agree with  
17 the suggestion that the people in Canada are actually  
18 subsidizing the oil industry by way of depletion  
19 allowance because certainly we have not enjoyed the  
20 depletion allowance to date.

21 MR. SHEPARD: I would like to offer a comment  
22 to Mr. Stewart on this point, that it seems to me that  
23 this criticism is based, or necessarily results from  
24 a misconception of depletion in that it is ignoring  
25 the fact that the depletion is provided because of the  
26 wastage of a capital asset.

27 It would seem to me if this point of the  
28 wastage justification for the depreciation allowance is  
29 kept in mind, that the criticism you make in the States  
30 that is current, would disappear; would not be justified.





1 MR. STEWART: Mr. Shepard, as I understand the  
2 classic approach to depletion, it was that it relate  
3 to a wasting asset and it was intended to permit the  
4 owner of the asset to recover his capital cost over  
5 the period of exhaustion. Now I think I indicated  
6 earlier it seems to me that part of the overall problem  
7 of the taxation of the petroleum industry in Canada  
8 at the moment is that the capital cost, except the  
9 1962 costs which are still being carried forward, is  
10 allowed under Section 83A and that, therefore, what  
11 may at one time have been the justification of a  
12 depletion allowance no longer applies. What we are  
13 looking for is further and current justification.

14 Would you consider that the reason, for  
15 example, that the current pre-tax return in this industry  
16 in the United States may be abnormally low could be  
17 that the American system of depletion has been in  
18 effect so long that it has got built into the whole  
19 structure of the industry with the result that  
20 companies are prepared to continue exploring, knowing,  
21 in the case of large companies at any rate, that they  
22 are going to have the benefit of the existing tax  
23 structure?

24 MR. SHEPARD: I think this is probably quite  
25 right Mr. Stewart and I think it would, therefore, be  
26 an extremely serious step, and I am sure this is why  
27 perhaps the step has not been taken, to eliminate or  
28 even think in terms of reducing the depletion allowance.

29 When you were having your discussion with Mr.  
30 Hardie on cost versus value, in terms of what is the





1 base of depletion, I had thought of making a comment  
2 and perhaps I might make it now. It seems to me, and  
3 perhaps I am over-simplifying it, that by having this  
4 kind of concept in mind, if we take a \$5 million value  
5 in a producing oil property, which was part of your  
6 illustration, and put it up alongside a \$5 million piece  
7 of real estate which is not a wasting asset -- I am  
8 speaking of real estate that is worth that amount of  
9 money -- if the person who owns the real estate pays  
10 \$200,000.00 for what he can sell at \$5 million, he gets  
11 a profit of \$4.8 million free of tax. It is a capital  
12 gain. If the man who has the initial investment in  
13 the oil well of \$200,000.00 produces that well for half  
14 its life, so that it is only worth half its value,  
15 let us say, rather than cost, if he gets no depletion  
16 in the interim time, he has really no incentive to  
17 produce it. His incentive is to sell it and make the  
18 capital gain.

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RPS 1 MR. SHEPARD: It seems to me to an extent  
2 we are mixing apples and oranges, and perhaps, to me,  
3 the simplest way of keeping depletion in proper perspect-  
4 ive in this kind of discussion is to continue to  
5 relate it in my thinking to the wastage concept.

6 MR. STEWART: Don't we get into this  
7 position, Mr. Shepard, and I don't say it is a wrong  
8 position, I am simply trying to explore this thing  
9 with you, that if you acquire a property, a exploration  
10 property and you are successful in your exploration --  
11 I am well aware you are not successful in all of them  
12 -- then as matters now stand you can recover through  
13 depletion through the combined effect of Section  
14 83A and the depletion allowance not simply 100 per  
15 cent of what you have invested in the particular prop-  
16 erty, not 200 per cent, not just 300 per cent or  
17 1,000 per cent, but if you take this hypothetical  
18 \$5 million case you can recover 2,400 per cent of your  
19 investment on a tax deductible base.

20 MR. SHEPARD: That is quite right, Mr.  
21 Stewart, and it is precisely the point I am making. There  
22 must be the underlying thought there is a difference  
23 between depletion and depreciation. The depreciation  
24 is basically a recovery of cost. Depletion is not.

25 MR. STEWART: That is granted. I shouldn't  
26 say it is granted because it isn't for me to grant  
27 anything. If that is so then you say that one should  
28 take into account wastage, but how much wastage do you  
29 take into account? The question that I am fumbling  
30 for is should there be any kind of a limit on the





1 amount of tax credit you should receive in respect  
2 of a particular property and if so should the limit  
3 be related to cost or some other factor?

4 MR. SHEPARD: It should be related to value  
5 as my learned colleague, Mr. Hardie so stated.

6 THE CHAIRMAN: Did he so state?

7 MR. STEWART: He did earlier, Mr. Chairman.

8 MR. SHEPARD: Yes, he did.

9 MR. STEWART: It appears you may recall  
10 in a paragraph that I referred to earlier, paragraph 51  
11 on page 27, the second sentence.

12 THE CHAIRMAN: I well remember this and I  
13 am very clear that he referred to value but it was the  
14 explanation of the purpose of depletion -- I didn't  
15 think there was a limit placed on the amount of depletion.  
16 Are you recommending at any time depletion ceases  
17 because the full cost is recovered?

18 MR. STEWART: In our earlier discussions  
19 he interpreted value as being not the cost to the owner  
20 but the value that could be recovered from the property.

21 THE CHAIRMAN: I follow that.

22 MR. HARDIE: If I might add something here.  
23 This I think is what the Act now attempts to provide  
24 because they relate depletion allowance to income.  
25 This income has a relationship to the value of the asset.

26 THE CHAIRMAN: I think someone is going  
27 to have to take a little time to educate me on the  
28 matter of depletion. I can find nothing in the Act  
29 to say depletion is the reduction of one-third of the  
30 income which would be equivalent to reducing one-third





1 of the cost, in other word that it was one-third of the  
2 tax so paid, but as far as providing money, making  
3 allowance -- I am lost. I recognize that good account-  
4 ing is that which you show on your financial statement  
5 and the every other oil company shows in its financial  
6 statement. I haven't heard anybody refute that with  
7 any conviction so far and I have yet to find that provision  
8 on any of these statements. Therefore I think depletion  
9 must be something over and apart from the determination  
10 of income. If that is correct it can only be  
11 incentives which is what you say here. It is a measure  
12 of income, I think. It may be, but I would think it  
13 is not the best measure of income. If it was the best  
14 measure of income it would be in your financial state-  
15 ments. Am I not right in that ?

16 MR. HARDIE: I think our financial  
17 statements are ~~a~~ statements of our historical costs.

18 THE CHAIRMAN: Are you going to tell me  
19 there is a better way to measure income than in your  
20 financial statement?

21 MR. HARDIE: No.

22 THE CHAIRMAN: Thank you.

23 MR. LOUGHNEY: If you want to get back to  
24 the rate of return using our own company as an example  
25 our rate of return in the last five years before  
26 depreciation and income tax is in the range of 12 to  
27 14 per cent and after tax is five to seven per cent.

28 MR. STEWART: On what?

29 MR. LOUGHNEY: On capital.

30 MR. STEWART: The shareholder's capital?





1 MR. LOUGHNEY: Total capital.

2 MR. STEWART: Capital in surplus.

3 MR. LOUGHNEY: And the rate of return in the  
4 States on domestic production is in the range of slightly  
5 under 10 per cent, about 9-1/2 per cent at the present  
6 time, and has been for the last four or five years.

7 THE CHAIRMAN: That means over half of your  
8 pre-tax profits are disappearing into tax.

9 MR. LOUGHNEY: Tax and depreciation. The  
10 first figure I gave was before depreciation.

11 THE CHAIRMAN: Was before depreciation?

12 MR. LOUGHNEY: That is right.

13 THE CHAIRMAN: Thank you.

14 MR. STEWART: Well now, one criticism of  
15 the American system of depletion allowance which I believe  
16 has been made in the United States is that depletion  
17 was permitted in the first place to help the small  
18 taxpayer whereas, in fact, depletion is for the great  
19 bulk of the depletion which is taken in the United  
20 States is taken by the larger companies. I have before  
21 me a booklet entitled The Federal Revenue System,  
22 Facts and Problems, 1961 which was published by the  
23 U.S. Government printing office in 1961. On page 94  
24 I find this statement:

25 "Moreover, it is contended that one  
26 "of the principal reasons offered for  
27 "preferential tax treatment in the extractive  
28 "industries is the relatively great risk  
29 "associated with exploratory and developmental  
30 "ventures. Such risks are alleged to be





1 "particularly burdensome for the small,  
2 "independent operator. Indeed, it was to  
3 "offer encouragement to the small prospector  
4 "that special depletion allowances were  
5 "first introduced. The most recent data  
6 "available from Statistics of Income,  
7 "however, show that 71.2 per cent of the  
8 "3.1 billion total depletion allowances  
9 "claimed by corporations in 1958 were on  
10 "returns of companies with assets of \$100  
11 "million or more, 88.2 per cent of the  
12 "total was claimed by corporations with  
13 "assets over \$10 million and 96.7 per cent  
14 "was accounted for by companies with at  
15 "least \$1 million in total assets.  
16 "Companies of this size are in a position  
17 "to protect themselves from overall losses  
18 "and in effect insure against the extra-  
19 "ordinary risks of prospecting and developing  
20 "particular mineral properties through broad  
21 "diversification of efforts. Accordingly,  
22 "it is maintained that the distribution  
23 "of the incentives of special depletion  
24 "allowances is quite different from that  
25 "conceived in the original provision."

26 I wonder if you would care to comment on  
27 that, that depletion was invented for the benefit of the  
28 small man and, in fact, it is being used by the large  
29 company and the suggestion is that the depletion  
30 that the large company doesn't really need it.





1 MR. LOUGHNEY: First, I would like to  
2 say that is completely a theoretical statement as far  
3 as I am concerned with my knowledge of the oil industry.  
4 The depletion allowance if you want to trace history,  
5 it goes back to the original discovery allowance, discov-  
6 ery depletion which was related back to the initial  
7 discovery, a very complicated system by which depletion  
8 was determined. Granted, if you go back far enough  
9 you find some of the large companies today ~~were~~ the  
10 small companies then. We think a great deal of their  
11 success in discovering oil and gas reserves throughout  
12 the world resulted from the fact that money was made  
13 available through depletion allowance. I don't think  
14 that is a good reason to argue against depletion, and  
15 as a matter of fact I think actually the argument is  
16 still in favour of it.

17 MR. STEWART: In actual fact, Mr. Loughney,  
18 I gather from what you said here the number of companies  
19 in Canada to date which have been able to take depletion  
20 allowance is quite small.

21 MR. LOUGHNEY: That is right.

22 THE CHAIRMAN: You are through with depletion,  
23 are you, Mr. Stewart?

24 MR. STEWART: Not yet. I come back for  
25 a moment to this question I have agitated earlier as  
26 to the quantum of the allowance which arises in part  
27 from the fact that the entire current costs can now  
28 be recovered under 83A and that any depletion which is  
29 obtained is over and above that. Do I take it that you  
30 feel there should be no limitation on the amount of





1 depletion, that the 33-1/3 per cent should not be  
2 reduced and that, in fact, the 33-1/3 per cent gives  
3 no more than industry is reasonably entitled to.

4 MR. HARDIE: I think this is basically  
5 what we suggested, that if it is a valid thing at  
6 all, and we think it is, then there should not be  
7 any limitation on it by reason of other provisions of  
8 the Act.

9 MR. STEWART: Well now, at the end of  
10 your treatment of depletion, in particular in paragraphs  
11 59 to 62 you deal with one particular point relating  
12 to depletion as regards gas production. You suggest  
13 that there is some discrimination between the mining  
14 industry and the petroleum industry in this regard.  
15 Now, could I ask you this: would the problem you refer  
16 to exist if in a particular case one particular producer  
17 had a gas plant which treated simply gas from the wells  
18 of that producer? Would that problem still remain?

19 MR. HARDIE: Yes. I might say in this  
20 regard that the statement in here as to how depletion  
21 is calculated is what we understand is the Government's  
22 opinion. This, I don't think is one hundred per cent  
23 decided but we understand that that is the attitude  
24 they are taking on depletion of gas plant revenues.

25 MR. STEWART: Your point comes down to this,  
26 I take it, that in the case of a gas plant whether it  
27 treats the gas of one producer or more than one producer  
28 the deemed profit of the plant then is deducted through  
29 the depletion base whereas in the case of a smelter of  
30 a mining company ~~no~~ such deduction is made.





1 MR. HARDIE: That is right.

2 MR. STEWART: Well now, Mr. Chairman, I think  
3 those are the only points I have on depletion.

4 THE CHAIRMAN: I think we might like to  
5 explore depletion a little further. I have one or two  
6 minor questions as to depletion. I think it is a  
7 taxation concession to achieve a certain national purpose.  
8 The national purpose I would expect to be to encourage  
9 exploration. Would you agree that is generally what  
10 promotes depletion?

11 MR. HARDIE: Yes.

12 THE CHAIRMAN: That being so would there  
13 not be a more direct way of encouraging exploration?  
14 Is there not something that might even be more effective  
15 than conceding one-third of the tax toward encouraging  
16 exploration? Could we devise a means whereby some  
17 concession, I wouldn't say depletion -- is there not  
18 a more direct way of going at it? I haven't heard any  
19 suggestion to that effect, but it would seem to me  
20 we might be able to devise something where we could  
21 relate the consideration closer to the payment?

22 MR. LOUGHNEY: I frankly haven't heard of  
23 a better suggestion than the general principle of depletion.  
24 I know of none.

25 THE CHAIRMAN: Now, when we think of the  
26 most effective methods of concession such as the  
27 Department has done with regard to the research expend-  
28 itures, perhaps to allow more than the actual expenditure  
29 as a deduction -- could that not be allowed very  
30 effectively in the case of exploration, say one amount





1 doubled the amount of exploration as a deduction from  
2 tax? It would seem to me that would be the most perfect  
3 relationship between exploration and tax concessions.

4 MR. LOUGHNEY: I don't believe I could agree  
5 with that. I think it is always better that whoever  
6 is spending money is spending his own money. I think  
7 it would encourage people to do their own type of  
8 exploration if they got double credit for what they  
9 did. The incentive would be to do exploration and not  
10 do proper exploration and there is a great deal of  
11 difference between the two.

12 THE CHAIRMAN: Thank you very much. I see  
13 your point.

14 MR. HARDIE: The incentive would be to spend  
15 money rather than do exploration.

16 MR. LOUGHNEY: Not spend wisely.

17 THE CHAIRMAN: I think if you lose money  
18 you aren't just losing Government money but part of your  
19 own.

20 MR. LOUGHNEY: That is true.

21 THE CHAIRMAN: You would see that the money  
22 was spent wisely. I would agree that the effect of the  
23 loss would be weakened because a good deal of it would  
24 rest on the Government. Is there anything else?

25 COMMISSIONER PERRY: I have some questions--  
26 just starting from the point that, I gather, you you  
27 are not now paying taxes on production income and  
28 probably don't expect to for some years.

29 MR. LOUGHNEY: Yes, we pay taxes on production  
30 income at the moment.





1 COMMISSIONER PERRY: I see. Why are you  
2 not getting benefit of depletion allowance?

3 MR. LOUGHNEY: We just passed the place.

4 COMMISSIONER PERRY: You just emerged into  
5 that position.

6 MR. LOUGNEY: Just arrived.

7 COMMISSIONER PERRY: I was a little bit  
8 mystified by this. You haven't yet put in a return  
9 in which are able to claim the depletion allowance.

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1 MR. STEWART: The brief, Mr. Perry, as I  
2 recall the submission says up until 1961, during the  
3 period that income tax would not be paid.

4 MR. LOUGHNEY: In our return for 1962, we  
5 claim depletion allowance.

6 COMMISSIONER PERRY: That explains the  
7 one thing that was confusing me. However, taking the  
8 proposition that accumulation of exploration expenses  
9 up until now in your own company, and in several other  
10 companies perhaps for some time to come will mean that  
11 there is no tax to pay, how can it be said that depletion  
12 on a different basis would increase cash in hand; cash  
13 available for exploration? You are not going to get  
14 any liability from the Government, or the company in  
15 this position has no liability to the Government.

16 MR. HARDIE: It will not pay it immediately.  
17 It will defer the payment of taxes in the future.

18 COMMISSIONER PERRY: All right, suppose it  
19 defers it for 10 years. Now is the situation that if  
20 a company knows that 10 years from now they are going to,  
21 in effect, have more years of exemption or lower tax  
22 at the end of the 10 years, is it going to be willing  
23 to spend more money today -- not willing, but will have  
24 the cash to spend? This is the point that you make.  
25 It will have the cash to spend today.

26 MR. LOUGHNEY: It attracts the capital  
27 that we need to carry on our business.

28 COMMISSIONER PERRY: Is this the consideration?  
29 That cash is attracted because of this kind of relief  
30 which will have an effect ten years in the future?





1 I am not trying to strain the case here, but I understand  
2 there are companies who won't pay any taxes for a good  
3 many years. Your point is this is a market consideration?

4 I cannot see that it has any internal cash  
5 flow consequences.

6 MR. LOUGHNEY: Oh yes.

7 COMMISSIONER PERRY: There is no more the  
8 Government can do to you than absolve you from paying  
9 any taxes today.

10 MR. LOUGHNEY: We have not, in our case,  
11 for example, received the benefit from the depletion  
12 allowance that we think the Act entitles us to.

13 COMMISSIONER PERRY: I am suggesting, in  
14 the case of a company which is using up its income year  
15 after year and is not having any tax to pay, that the  
16 granting of a depletion allowance on any basis, although  
17 going to have an effect many many years from now, is  
18 not going to effect its immediate position, its immediate  
19 cash position.

20 MR. LOUGHNEY: Yes, it could effect its  
21 immediate cash, if you have to go to separate property  
22 basis in your thinking to arrive at the same conclusion  
23 I am arriving at.

24 COMMISSIONER PERRY: All I am saying: one  
25 way you end up not paying any taxes. The company is  
26 in this position now. By another formula that may be  
27 arrived at, it may be in the same position: it does not  
28 pay any taxes but does this change its present cash  
29 position? I am literally looking at some paragraphs  
30 in your own brief here in which you say that this --





1 you speak of funds being made available, depletion  
2 provision thus making available additional cash for  
3 this activity.

4 I can see in your own situation that now  
5 that you are entering the taxable category it will have  
6 that effect, but it wouldn't have in 1961.

7 MR. LOUGHNEY: It has the immediate effect  
8 and that is of taxes taking a very substantial part  
9 now of our net income because of the fact that we are  
10 not getting the full benefit of depletion allowance  
11 as we would if the depletion, the present depletion  
12 allowance were administered on some other basis than just  
13 the gross or the net income of the company after the  
14 83A deductions.

15 COMMISSIONER PERRY: I agree in your  
16 present position this would be so, but I am only thinking  
17 of the apparently several companies in this country  
18 who have sufficient exploration expenses accumulated  
19 that they end up being non-taxable on their production  
20 expenses each year.

21 MR. LOUGHNEY: I don't think that condition  
22 necessarily will go on. I think you have to go back  
23 into our industry in Canada and recognize that in the  
24 period 1956, 1957, 1958, in those years there was  
25 created a demand which was not normal inasmuch as  
26 we were faced with the Suez crisis and our industry  
27 developed at a much faster rate than it would have under  
28 normal conditions. As a consequence, many companies  
29 accumulated a large, what we call backlog or in other  
30 words, through 83A expenditures which, in our case,





1 we now have used them up and yet during those years  
2 we have carried on for us a normal type of exploration  
3 programme.

4 Now beginning in 1962 our tax rate will be  
5 very high and, as a consequence, it takes dollars away  
6 that we might otherwise use in the exploration programme.  
7 We have to tailor the programme of production exploration  
8 to fit the revenue after payment of all expenses and  
9 taxes.

10 COMMISSIONER PERRY: Well the only or the  
11 easiest way that you can keep these dollars of exploration  
12 is to spend them.

13 MR. LOUGHNEY: No. It is not necessarily  
14 the case. The easiest way to keep them is not to spend  
15 them at all.

16 COMMISSIONER PERRY: Oh yes. You are speak-  
17 ing of exploration expenses?

18 MR. LOUGHNEY: That is right.

19 COMMISSIONER PERRY: I am afraid I am still  
20 left in confusion as to how the benefit, which would  
21 be very much a deferred benefit in many cases ---

22 MR. LOUGHNEY: It really isn't deferred.

23 COMMISSIONER PERRY: --- is going to affect  
24 your cash position. This is the claim you are making?

25 MR. LOUGHNEY: It isn't really a deferred  
26 position if you follow me on the separate property basis  
27 or field basis as contrasted to the manner in which  
28 depletion is computed today and we recover first from  
29 a property, we recover first our actual out-of-pocket  
30 costs of developing the property; those charges that





1 are properly classified under Section 83A. Then having  
2 used those up, then the income from that point on is  
3 subject to depletion allowance so that one-third of  
4 the income is not taxable. That one-third of the income  
5 is not deferred. It is immediate. Those funds are  
6 available now.

7 COMMISSIONER PERRY: I can follow the  
8 arithmetic sir. I just wondered what effect this would  
9 have had on you in 1961, for example. You would have  
10 ended up ---

11 THE CHAIRMAN: You are just simply saying  
12 that there cannot be any benefit when you are taxable.

13 COMMISSIONER PERRY: There is nothing better  
14 than not having any tax to pay, if you are going to  
15 get benefit under those conditions.

16 MR. LOUGHNEY: There is no question about  
17 it, in our own case. Because of the fact that we are  
18 paying now full taxes, we have cut back on our capital  
19 expenditure programme, by which exploration has suffered,  
20 to some extent, simply because we do not have the cash  
21 flow that would permit us to carry on.

22 COMMISSIONER PERRY: I can see this as soon  
23 as you do become taxable your taxes are increased. I  
24 am afraid I am asking you to think back to the years  
25 when you were not taxable, which I assume is still the  
26 position of quite a few companies in this country.  
27 I find it difficult to see that any different mix of  
28 the tax treatment would have changed your cash position  
29 in those years by one penny.

30 MR. LOUGHNEY: Well it would to this extent:





1 we would have applied the Section 83A to our total  
2 income. We would have applied, and then have received  
3 no depletion allowance, going back again to the separate  
4 property basis, the 83A would have been deductible  
5 from the income from certain property and then they  
6 would have had depletion allowance and that would have  
7 continued on and instead of having used up all of our  
8 Section 83A, I think we would still have some.

9 COMMISSIONER PERRY: Another way of arriving  
10 at this result would be to say that in the future you  
11 may deduct 83A expenses only up to half your income.  
12 Something of that sort. Then you would be able to  
13 carry these things forward and you would have twice  
14 the period to be able to take depletion and I think  
15 everyone would be happy according to the story we  
16 often hear.

17 MR. LOUGHNEY: I am not familiar with the  
18 story that you often hear so I cannot comment on that  
19 one.

20 COMMISSIONER PERRY: The point is that there  
21 are other ways of making depletion effective in its  
22 present form than the one you are proposing. Another  
23 way is to assure that there is a profit to which it can  
24 apply.

25 MR. LOUGHNEY: If there is no profit, there  
26 is not very much incentive to do exploration is there?

27 COMMISSIONER PERRY: No, I don't think this  
28 is the case that has been made, that you are carrying  
29 on a non-profitable organization. Anyway, my original  
30 point related to its effect on cash and is apparently





1 violated because of the fact you are now in a taxable  
2 position and the arithmetic changes considerably, of  
3 course.

4 THE CHAIRMAN: Mr. Loughney made a statement  
5 I was very much interested in. We give considerable  
6 thought and attention to the effect of taxation and not  
7 very often are these well documented. People do say  
8 to us that they think the effect is such and such,  
9 but when we say can you illustrate it, it is very hard  
10 to support. You have just indicated that the result  
11 of taxation on you in the future is to curtail the  
12 expansion of your company?

13 MR. LOUGHNEY: That is correct.

14 THE CHAIRMAN: And that is an important  
15 matter and you are saying that if it were not for  
16 taxation, you would have spent more of capital accounts  
17 on projects which would be good and profitable to you  
18 and that because of the lack of cash flow, shortage  
19 of funds, you deferred those. Is that correct?

20 MR. LOUGHNEY: That is correct, yes.

21 THE CHAIRMAN: Would this be substantial?

22 MR. LOUGHNEY: Well it could be to the  
23 extent of, in 1963 \$7 million, \$8 million. In 1964 it  
24 is about \$10 million.

25 THE CHAIRMAN: If your company was free of  
26 tax, those amounts would have been spent?

27 MR. LOUGHNEY: Well generally I would say  
28 yes to that question. Now if you ask me specifically  
29 just what items were cut out of the budget I would  
30 hesitate to say, but I do know we just completed our





1 budget studies and we do know that all of our departments  
2 were asked to curtail their expenditures because of the  
3 impact of increasing taxes on us, and not the least of  
4 which was our exploration effort.

5 THE CHAIRMAN: We have, you see, endeavoured  
6 to run down the effect of some of these incentives, such  
7 as investment allowance. By asking the questions I  
8 have been led to believe that the impact on small  
9 companies may be more serious than it is on large  
10 companies. They may receive more benefit. That the  
11 large companies are generally looking ahead for a very  
12 long period of time and their capital expenditure through  
13 developments are not going to be affected by any  
14 great extent by changes from year to year. You have  
15 given us a perfect illustration where that is not so in  
16 your case.

17 MR. LOUGHNEY: That is correct.

18 MR. SHEPARD: I think it would be right,  
19 Mr. Carter, that the comments that Mr. Loughney has  
20 made are not just restricted to the impact of income  
21 tax because just recently we have had other kinds of  
22 taxes that your Commission is fully familiar with.  
23 Sales tax, increase in sales taxes as well.

24 THE CHAIRMAN: I am sorry. My questions  
25 were directed only to income tax.

26 MR. SHEPARD: I appreciate that.

27 THE CHAIRMAN: When I said had there been  
28 no income tax would you go ahead, I meant just that.

29 MR. SHEPARD: I appreciate that. That  
30 same line of reasoning, in my thinking at any rate,





1 is applied to the impact of the increase in other taxes  
2 as well on a company such as ours.

3 THE CHAIRMAN: Thank you.

4 MR. STEWART: Now gentlemen I would like  
5 to put some questions to you on other aspects of petroleum  
6 taxation. It has been suggested, for example, that the  
7 Section 83A deduction should be allowed not against  
8 income as a whole, but simply against production income  
9 and that the effect of the present allowance is to  
10 discriminate in favour of integrated companies as  
11 opposed to non-integrated companies. Would you care  
12 to comment on that?

13 MR. LOUGHNEY: Well I don't agree with the  
14 suggestion that there is any discrimination because  
15 certainly there is nothing to prevent any company in  
16 the oil business from becoming fully integrated, if they  
17 wanted to take the calculated risk of going into the  
18 market. It's a matter of choice with them. They choose  
19 to stay only in the production-exploration end of the  
20 business by choice, that is their decision.

21 MR. STEWART: But Mr. Loughney is it not  
22 a fact to become an integrated oil company in Canada  
23 at the present time involves an enormous amount of  
24 capital which a great many people could not raise. Does  
25 the question not really come down to the fact do the  
26 present rules with respect to Section 83A favour the  
27 large fellow at the expense of the small fellow?

28 MR. LOUGHNEY: I think, Mr. Stewart, if you  
29 go back you find that some of the incentives that are  
30 not possible under Section 83A, were actually instituted





1 to encourage companies who were then engaged in the  
2 refining and marketing end of the business, to develop  
3 their own reserves and reduce the dependence of Canada  
4 on imported crude and we feel that it is still  
5 necessary, certainly to our business, that we can  
6 continue to look, despite the fact we have what we  
7 regard as substantial reserves of oil and gas, still  
8 continue to look for oil and gas reserves to take care  
9 of us in the future.

10                   Going back to the statement that was  
11 made on the balance of trade, we feel in time this  
12 can be a plus factor on the balance of trade when our  
13 exports exceed in value the value of the imports.

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1 I think myself that an integrated company should be  
2 encouraged to seek and find some reserves, and by the  
3 use of Section 83A against total income is one method  
4 by which they can be encouraged.

5 MR. STEWART: Integrated companies are permitted  
6 to deduct Section 83A expense from all their income.  
7 It has been suggested that companies, which are not  
8 primarily in the petroleum business, and individuals  
9 should have the right to deduct such expense or income  
10 from all sources and not simply from petroleum income.  
11 Would you see any objection to that?

12 MR. LOUGHNEY: This is where I part company  
13 with some of my good friends, and I do. I feel that  
14 part of the abuses of this problem were from the  
15 allowance probably given as a result of the fact that  
16 people, who are not really in the oil industry, are  
17 enjoying benefits with those who do. I feel that the  
18 rule followed in Canada, the primary source of income  
19 is your basic business, is a much better rule to  
20 discourage entrepreneurs who are not really people coming  
21 into the business. This is the kind of money that does  
22 not do us the good it should.

23 MR. STEWART: We were talking about the 1962  
24 amendments and the fact that now the acquisition cost  
25 of petroleum properties is deductible and the proceeds  
26 of disposition of petroleum properties are to be  
27 brought into income. Could you say whether these  
28 changes have had any effect on the prices of petroleum  
29 properties generally?

30 MR. LOUGHNEY: We get two kinds of properties.





1 One is the producing properties, and one is undeveloped  
2 properties.

3 MR. STEWART: Yes.

4 MR. LOUGHNEY: The fact that the income is  
5 taxable as ordinary income should discourage the sale  
6 of properties. We have evidence that it has done just  
7 that.

8 So far as undeveloped acreage is concerned,  
9 it may have had some effect. If so, very slight because  
10 I know in our own case, when we determine the amount  
11 that we are prepared to bid on land as tendered, we do  
12 not take into account the fact that it is an item that  
13 is chargeable or deductible under Section 83A. We try  
14 to bid in accordance to what we think our competition is  
15 going to be. It may have had some affect on it, but it  
16 is an immeasurable affect we cannot determine. This is  
17 a point we have considered and we have watched for some  
18 evidence of it. But, we have found very little.

19 MR. STEWART: What about the effect of these  
20 new rules on take overs in the industry, using take  
21 over in the first instance, at any rate, in the sense  
22 of share take overs?

23 MR. HARDIE: I do not think it can have any  
24 effect on the case where you are buying shares of the  
25 company. There is no provision for any greater tax  
26 deduction. If you buy a company of this nature, the  
27 purchase price of such a company share is not allowed  
28 as tax deduction.

29 MR. SHEPARD: Let us put it another way. The  
30 purchase of shares does not involve purchase of lease.





1 MR. STEWART: If I can extend the term "take  
2 over" to purchase of assets ~~subject to liabilities~~ as a going  
3 concern, would the change in the rules have any effect  
4 on that type of thing?

5 MR. SHEPARD: I would think a change in the  
6 rules would confirm what Mr. Loughney said, the  
7 reluctance of the vendor to sell by that route because  
8 if he did he would be taxed. If he sold his shares he  
9 would not be taxed.

10 MR. STEWART: As far as a person who may be  
11 contemplating a take over bid for assets, does it also  
12 apply when he determines what he is going to offer, he  
13 doesn't -- the tax factor is not a primary factor?

14 MR. SHEPARD: I think it would be.

15 MR. STEWART: You think it would be a primary  
16 factor?

17 MR. SHEPARD: He would take into account the  
18 reluctance of the vendor to sell, and he might have to  
19 increase his price accordingly.

20 MR. STEWART: And also be influenced by the  
21 fact that he would have a tax deduction in respect  
22 of the acquisition cost?

23 MR. SHEPARD: Yes.

24 MR. STEWART: It was suggested, shortly after  
25 the 1962 amendments came in, that they might have an  
26 effect on the financing of acquisitions in your  
27 industry, in particular that they might result in the  
28 ABC type of deal, as it is called in the United States,  
29 becoming feasible for Canada. Have you any indication  
30 whether or not that has happened?





1 MR. HARDIE: I do not know of any case where  
2 it has happened and while the amendments might have  
3 helped on the case of the purchaser on oil payment, it  
4 has had the opposite effect on the sseller of the oil  
5 payment because under the new rules there is no doubt  
6 that the sale price of the taxable income is in his  
7 hands. I think this would discourage the sale of an  
8 oil payment.

9 MR. STEWART: Perhaps we can take a few  
10 minutes on the earlier part of your brief which has to  
11 do with more general questions.

12 The first point relates to what has become  
13 to be called nothings, and in paragraph 18 on page 9  
14 of your brief you deal with the question of deductibility  
15 of expenditures you make on properties belonging to  
16 others. I am not quite sure what type of relief  
17 you would like there. Are you suggesting, for example,  
18 that these expenditures should be treated as though  
19 you were the owner of these particular properties and  
20 that you should be entitled to capital cost allowances  
21 in respect to the amounts involved?

22 MR. LOUGHNEY: Yes.

23 MR. HARDIE: We would like relief one way or  
24 the other. This, of course, would be preferable if we  
25 could get the deduction as expense immediately. We  
26 would be satisfied with the relief of capital cost  
27 allowance.

28 MR. STEWART: It occurs to me that if you were  
29 allowed these expenditures as a current deduction, this  
30 might lead to abuse. There may be a great many





1 expenditures which were dealt with that way rather  
2 than through the owner of the property himself.

3 COMMISSIONER PERRY: Is it fair to ask if  
4 they would be satisfied to accept whatever treatment  
5 would have been given had they been the owner?

6 MR. LOUGHNEY: Yes.

7 COMMISSIONER PERRY: If they were current  
8 expenses ordinarily.

9 MR. LOUGHNEY: Yes.

10 MR. STEWART: On pages 10 to 12 of your brief  
11 you deal with the problem of accumulated surplus. You  
12 suggest, with every justification, that this is one  
13 problem that this Commission should consider. You deal  
14 with a specific point in paragraph 22 which you suggest  
15 should receive immediate attention.

16 In order to make my point on that particular  
17 suggestion, I would like to put an example to you. Mr.  
18 Jones, who owns all the shares of a particular company  
19 which we will call, for the sake of convenience, Jones  
20 Holdings. That company, let us assume, is a wholly  
21 owned subsidiary which we will call Jones Operating.  
22 Let us suppose that Jones Operating has a very  
23 substantial surplus but that surplus is not designated.  
24 Now, I would like to consider a couple of possibilities  
25 in connection with this hypothetical set up of Jones,  
26 Jones Holdings and Jones Operating. Let us suppose  
27 that Jones Operating has an opportunity of selling its  
28 assets subject to its liabilities as a going concern  
29 in an arm's length transaction at a favourable price  
30 and for cash. Mr. Jones is attracted by this because





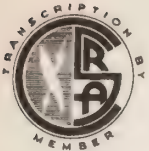
1 if this sale can be effected, then he will be in a  
2 position to wind up both Jones Operating and Jones  
3 Holdings, and there he is.

4 Let us suppose he considers the alternatives.  
5 One is to put the sale through and the other is not to  
6 put the sale through. If he considers not putting the  
7 sale through but disposing of the assets of Jones  
8 Operating, converting that company into a cash position  
9 and wind it up into Jones Holdings, the effect will be  
10 that the undistributed income of Jones Holdings will be  
11 very materially increased. If he then wants to wind up  
12 Jones Holdings and distribute those assets to himself,  
13 he will be in an awkward tax position.

14 Now, his alternative comes along, some arm's  
15 length purchaser comes along to him and offers to buy  
16 from Jones Holdings, the shares of Jones Operating;  
17 and he says to himself, now if I put that transaction  
18 through then as far as Jones Holdings is concerned  
19 there is no addition to undistributed income. This  
20 Jones Holdings surplus will be increased on the  
21 assumption that it gets more for the shares of Jones  
22 Operating than is invested, and can then proceed to  
23 wind up Jones Holdings without anything like the  
24 personal tax consequences that he had under the first  
25 alternative.

26 Now I put it to you that this purchaser,  
27 this prospective purchaser of shares of Jones Holdings,  
28 was dealing with it at arm's length which is not the  
29 case that you are suggesting. Let us suppose the  
30 purchaser is dealing with Mr. Jones or Jones Holdings





1 on a non-arm's length basis. I think the tax  
2 consequences of each alternative may be the same. If  
3 he follows the second alternative and Jones Holdings  
4 sells to this purchaser the shares of Jones Operating  
5 with the tax problems of Jones Holdings and Mr. Jones  
6 has sold,-- and the purchaser may be in that position,  
7 on your suggestion, which is that his surplus of Jones  
8 Operating was not designated before. It should not be  
9 designated now.

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1 The purchaser could move the surplus of  
2 Jones Operating up to itself on a tax-free basis. Then  
3 admittedly the undistributed income will be increased  
4 by the amount of the surplus, but the monies are moved  
5 up and couldn't be used by the purchaser to help pay  
6 for the shares of Jones Operating. If my reasoning there  
7 is correct then is it not a possible reason why Section  
8 28 presently provides that there will be a designated  
9 surplus notwithstanding the shares which are purchased  
10 are purchased on a non-arm's length basis.

11 MR. HARDIE: I don't think so because he  
12 could accomplish that under the present rules, the same  
13 tax consequence. If Mr. Jones instead of selling the  
14 shares of Jones Operating to <sup>the</sup> a new purchaser sold  
15 shares of Jones Holding to the new operator and their  
16 value would be presumably the same if the Holding Company  
17 had nothing except shares of Jones Operating and he  
18 has no need to keep Jones Holding, so there is no  
19 disadvantage to Mr. Jones and the new purchaser then  
20 owns the shares of Jones Holdings. It is true that  
21 Jones Holdings' surplus would be designated at that  
22 point but by your proposition it had very little surplus  
23 anyway so that this is a minor amount, if any, that  
24 is designated. At that point Jones Operating pays the  
25 dividends to Jones Holding which is tax-free because  
26 the ownership hasn't changed.

27 Jones Holdings then pays the dividends to  
28 the new purchaser and there is no tax because there is  
29 no designated surplus so that you have the money moved  
30 up to the new purchaser with which to buy the shares





1 which would be the effect with the other procedure. Our  
2 point here is that since this could happen this way  
3 why not allow it to happen in the normal way than go  
4 through this.

5 MR. STEWART: In the other illustration  
6 that you have just given where the shares of Jones  
7 Holdings were sold rather than shares of Jones Operating,  
8 I quite agree up until the present time the purchaser  
9 could bring the surplus of Jones Operating up because  
10 it is not designated. This may now be affected by the  
11 provisions of Section 138A of the new Bill.

12 Is the problem that we are basically faced  
13 with here not simply this, the tax legislation and  
14 provisions with regard to surplus accumulation and  
15 distribution, the problem is that they should not  
16 restrict bona fide business transactions, but at the  
17 same time they should catch the surplus stripper who is  
18 proceeding not in a bona fide business transaction in  
19 the ordinary sense.

20 MR. HARDIE: I think this was the intention  
21 of the Section of the Act.

22 MR. STEWART: I think the difficulty with  
23 the suggestion, I suggest, to you the difficulty is  
24 you have to frame general rules and that if your general  
25 rules are to be effective against the surplus stripper  
26 then it may cause inconvenience to the person who is  
27 not interested in that type of thing at all but happens  
28 to be caught by the general rule.

29 MR. HARDIE: Not only inconvenienced, it  
30 can cost considerable cash.





1 MR. STEWART: That is right. I am wondering  
2 whether you have considered this, have you gone further  
3 than you indicate in the brief in your consideration of  
4 surplus problems if the accumulation of surplus which  
5 is inherent in your -- I will have to start that question  
6 again. We have a system now which taxes the income of  
7 all corporations and then taxes the shareholder when  
8 that income comes to be distributed. Now in the circum-  
9 stances there is a desire on the part of the shareholder  
10 to avoid the tax on distribution.

11 Is the remedy to the problem basically to  
12 alter the whole system of taxation of corporate income?  
13 Have you gone into this aspect of the matter? Have you  
14 any alternatives to suggest to the Commission as regards  
15 the basic method of taxing corporate income?

16 MR. HARDIE: We haven't any suggestions as  
17 to how this might be done. We have as Mr. Shepard  
18 says thought this system should be looked at, but we  
19 didn't think that we had the information or the means  
20 of getting the information to find out what the impact  
21 of such a major change of the tax structure would have  
22 on the basic economy of the country.

23 MR. STEWART: I just have a couple of questions  
24 with regard to the special type of corporations which  
25 you deal with at pages 12 to 19; The first type is  
26 Crown corporations and you suggest there that Crown  
27 corporations should not be exempt from income tax if  
28 they are engaged in a commercial enterprise. Have you  
29 considered the problem of determining what the income  
30 of such a corporation is in particular circumstances?





1 Let me give you an example: suppose that a Crown corpor-  
2 ation has a monopoly in a particular area in its  
3 particular field, and that it has established a  
4 price structure which reflects the fact that it has  
5 not been subject to income tax. Have you considered  
6 how the price of that Crown corporation should be  
7 adjusted if the tax is imposed so there will be income  
8 subject to tax?

9 MR. HARDIE: I am not quite sure I under-  
10 stand your question.

11 THE CHAIRMAN: You mean if the Crown corpor-  
12 ation priced out there would be no tax paid?

13 MR. STEWART: That is it. At the moment,  
14 let us say the Crown Corporation has priced out, in  
15 fact, it is carrying on on a non-profit basis. If it  
16 is doing that the effect of imposition of income tax  
17 may be somewhat academic.

18 THE CHAIRMAN: That would pertain particularly  
19 in public utilities and public utilities commissions.

20 MR. SHEPARD: In the circumstances you ~~say~~ stated  
21 that it would be academic, Mr. Stewart.

22 MR. HARDIE: The only thing that might affect  
23 this is if it has borrowed money to finance its  
24 operations and it is going to be expected to pay this  
25 out of its own revenues it would have to create some  
26 revenues to realize this capital. This could be arranged,  
27 I suppose, in some other way.

28 MR. STEWART: That would depend on the  
29 circumstances. I agree in some situations where capital  
30 was a large factor it might have to generate income which





1 would become subject to tax. I wondered if you had  
2 thought just exactly how one would impute income to  
3 a Crown corporation in the circumstances I have mentioned.  
4 I take it you have no specific suggestion?

5 THE CHAIRMAN: May I interrupt? The clock  
6 is getting to one o'clock, the usual hour to break for  
7 lunch. How much more questioning do you have to do?  
8 I am contemplating whether or not we should return after  
9 lunch?

10 MR. STEWART: Mr. Chairman, I think I  
11 would like to put one more question.

12 THE CHAIRMAN: I have one more question  
13 myself and I don't imagine the Commission will have  
14 much more than that.

15 MR. STEWART: My question relates to  
16 co-operatives which you deal with in the section I have  
17 just referred to. We have had appear before the  
18 Commission a number of people who objected to the  
19 present tax treatment of co-operatives. The basic  
20 objection has been that if co-operatives are competing  
21 with ordinary commercial corporations they should be  
22 taxed on the same basis and that they should pay tax  
23 on income prior to the deduction of patronage dividends  
24 whether the patronage dividends are paid in cash or  
25 otherwise. In your brief you don't make that basic  
26 objection. You appear to be satisfied that the  
27 co-operatives should be entitled in the computation of  
28 income to make a deduction for patronage dividends  
29 provided they are paid in cash. I wonder if you would  
30 comment on this and indicate the reason for the particular





1 line you have taken?

2 MR. HARDIE: I think we have said something  
3 about this in the brief, ~~that~~ we feel if these are, in  
4 fact, reductions of the purchase price, which is what  
5 a patronage dividend is, ~~if~~ it was paid out in cash the  
6 taxpayer would probably be entitled to deduction under  
7 the normal business expense Sections of the Act, anyway.  
8 If this is just a discount to the purchaser of goods,  
9 then are these discounts not allowed as a deduction  
10 from income in any event?

11 MR. STEWART: Of course the people I speak  
12 of who oppose the co-operatives don't regard these  
13 amounts as price discounts in the deductible sense.  
14 I take it that you have proceeded on the assumption that  
15 they are.

16 MR. HARDIE: Yes, because the patronage  
17 dividend is related to the amount of business that is  
18 done and not to the amount of capital that the person  
19 has invested in the business.

20 THE CHAIRMAN: I would like to draw attention  
21 to the example with regard to co-operatives, and I  
22 am not going to ask questions. I just think that the  
23 example would be improved if one would pursue the  
24 matter of tax right down to when the shareholder on  
25 the one hand receives the normal dividend or the  
26 customer on the other hand receives the patronage dividend.  
27 Shareholders' dividends are subject to tax credit,  
28 patronage dividends are not. You get a very different  
29 result if you bring it down to the ~~same~~ result. I have  
30 done so. You can work it out yourselves. I don't wish





2:1 to dwell on it.

2 MR. HARDIE: There is one comment I would  
3 like to make in connection with that, if the goods in  
4 respect of which the patronage dividends<sup>are</sup>/received are  
5 consumer goods then the Act specifically exempts these  
6 patronage dividends from tax.

7 THE CHAIRMAN: I realize that. I am talking  
8 about producer goods. You are right, of course. I  
9 am sorry.

10 MR. HARDIE: There is a lot of business  
11 being done by co-operatives in this category today.

12 THE CHAIRMAN: Mr. Walls reminds me there  
13 is something like 15 per cent on producer goods whereas  
14 there is 85 per cent on consumer goods. It is a little  
15 hard to verify, but it would be something reasonably  
16 close to that.

17 One question I want to put to you: it is  
18 in the same section. You give the impression of endorsing  
19 certain investment allowance, indicating you are in  
20 favour of investment allowance. We have been, of course,  
21 curious as to the benefits <sup>to</sup> of those/industries and  
22 just how they did appraise it. Let us assume that  
23 it is decided by the Minister of Finance he is going  
24 to reduce corporation tax by two percentage points. Let  
25 us say he has got roughly \$70 million available for the  
26 reduction of corporate tax. He would then have a choice  
27 of reducing two percentage points of the corporation  
28 tax rate or using it for one form of incentive or the  
29 other. Let us assume that there are no investment  
30 allowances at the present time. Would you think that





1 money might be better spent in two percentage points  
2 corporate tax reduction or in the institution of some  
3 investment allowance, say depreciating new equipment  
4 at 120 or 130 per cent or something of that order. I  
5 don't know how far one could go. Nobody does know.  
6 Let us go up to about 125 per cent depreciation on  
7 new equipment.

8 MR. SHEPARD: I just made a comment, Mr.  
9 Carter, that I wouldn't mind having on the record, to  
10 Mr. Loughney, that it is really a \$64 question.

11 THE CHAIRMAN: You bet, but it is a very  
12 important one. I would like an opinion if you could  
13 give us one. It is something we have to face. What is  
14 the effect of taxation? What is the effect of incentive?  
15 Are we better off to get a reduction without incentives?  
16 I don't know. Some people have come forward and said  
17 let us reduce tax and forget about incentives. Some  
18 people like yourselves are more inclined to put weight  
19 on incentives. Which direction do you favour generally?

20 MR. LOUGHNEY: I would favour, personally,  
21 reduction of taxes in the overall as a greater contribu-  
22 tion to the economy.

23 THE CHAIRMAN: Thank you very much. That  
24 is all I want on that score. I appreciate the fact  
25 you are prepared to take a position on it. I don't  
26 attach too much importance to the position but I respect  
27 the fact that you are prepared to express yourself.

28 Thank you very much. We have had a very  
29 interesting morning indeed, Mr. Loughney and gentlemen.

30 MR. LOUGHNEY: Thank you very much, Mr.





1 Chairman.

2 THE CHAIRMAN: We are very grateful.

3 MR. LOUGHNEY: We appreciate the opportunity  
4 of appearing.

5 THE SECRETARY: I would like to enter one  
6 submission into the record as Exhibit 255; that is the  
7 submission of Mr. Francis Lorenzen of Windsor Ontario.

8  
9 --EXHIBIT NO. 255: Submission of Mr.  
10 Francis Lorenzen.

11  
12 THE CHAIRMAN: We will stand over to  
13 9:30 on Tuesday morning.

14  
15 ---WHEREUPON THE HEARING ADJOURNED TO 9:30 A.M.,

16 TUESDAY, THE 12th DAY OF NOVEMBER, 1963.

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# ROYAL COMMISSION

ON

# TAXATION

## HEARINGS

HELD AT  
OTTAWA

ONT.

VOLUME No.:

68

DATE:

NOV 12 1963

OFFICIAL REPORTERS

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TORONTO

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1  
2 THE ROYAL COMMISSION ON TAXATION

3 Hearing held in the Centre Court  
4 Room, Exchequer Court of Canada,  
5 Supreme Court Building, Welling-  
6 ton Street, Ottawa, on Tuesday,  
7 the 12th day of November, 1963.

8 C O M M I S S I O N :

9 MR. KENNETH LeM. CARTER -- Chairman

10 MR. J. HARVEY PERRY

11 MR. A. EMILE BEAUVAIS

12 MR. DONALD G. GRANT

13 MRS. S. M. MILNE

14 MR. CHARLES WALLS

15  
16 LEGAL ADVISER:

17 MR. J. L. STEWART, Q.C.

18  
19 RESEARCH DIRECTOR:

20 PROF. D. G. HARTLE

21  
22 SECRETARY:

23 MR. G. L. BENNETT

24  
25  
26 \*\*\*\*\*  
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TORONTO, ONTARIO

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ANGUS, STONEHOUSE & CO. LTD.  
TORONTO, ONTARIO

Ottawa, Ontario  
Tuesday 5221  
November 12, 1963

1  
2 ---ON COMMENCING AT 9:30 A.M.

3 THE CHAIRMAN: Mr. Secretary, I think we  
4 might as well start. By my watch it is now 9:30.

5 THE SECRETARY: Mr. Chairman, Mr. Commissioners,  
6 this morning the first brief is being submitted by the  
7 Credit Union National Association Incorporated. Mr. A.  
8 R. Glen, one of the Vice-Presidents of CUNA from Nanaimo,  
9 B.C. will make a few introductory remarks and will in-  
10 troduce his colleagues to the Commission.

11 I would like to enter this brief into the  
12 record, Mr. Chairman, as Exhibit 256.

13  
14  
15 ---EXHIBIT NO. 256: Brief submitted by the  
16 Credit Union National  
Association Incorporated.

17 SUBMISSION OF

18 THE CREDIT UNION NATIONAL ASSOCIATION INCORPORATED

19  
20 Appearances: Mr. W. Polner

21 Mr. D. E. Gauley

22 Mr. H. M. Daley

23 Mr. H. R. Glen

24 Mr. J. O. Shipe

25 Mr. R. J. Ingram

26 Mr. D. R. Weinberg

27 THE CHAIRMAN: Thank you Mr. Secretary.  
28 Good morning Mr. Glen, gentlemen. We are glad to see  
29 you this morning. We have read your submission with  
30 considerable interest, I might say. This is not the first





1 time that we have had a look at this movement and it is  
2 an interesting one and I think we are pretty well pre-  
3 pared to accept that it is a good movement. It is a useful  
4 movement. It is good for the Nation. That is not on  
5 trial, of course, whatsoever. We are merely concerned  
6 with whether or not these organizations should be  
7 charged with some of the share of the cost of the  
8 Federal Government and, if so, to what extent they  
9 should be.

10 I said we are only concerned. It is not a  
11 small concern at all. It is a very difficult one and we  
12 are very much concerned about it. May I introduce to you  
13

14 Page 5222 follows.  
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1 the Commissioners, whose names are all before us here  
2 and Mr. Glen I would be grateful, before starting, if you  
3 would introduce your associates to us. We are very glad  
4 to see you.

5 MR. GLEN: Thank you Mr. Chairman, and members  
6 of the Commission. Before I introduce my colleagues, may  
7 I say that it is an unusual experience, at least for me,  
8 to attend a hearing of this nature.

9 I am a printer by trade, a linotype operator.  
10 I am what might be called one of the volunteers in the  
11 Credit Union Movement in Canada, an obligation I have tried  
12 to fulfill to the best of my ability for some 23 years,  
13 ever since my early teens and while the people I will  
14 introduce to you in a moment are the people who are con-  
15 cerned with the development of the movement, as we vol-  
16 unteers see its development, and are in that capacity  
17 employed by our Credit Union organization, They too of  
18 course have amassed a great deal of knowledge, practical  
19 and otherwise, in their respective fields. I would have  
20 preferred, Mr. Chairman, to have been able to have  
21 brought here many of the other literally thousands of  
22 volunteers who have served the Credit Union movement, but  
23 since they have a job to do at home, as I have, to earn  
24 a living for my family, I think you will understand how  
25 difficult this is and why it becomes necessary for us to  
26 rely upon some of our employed associates.

27 Now on my far right is Dr. Walter Polner, who  
28 is the Director of the Department of Research, Economics  
29 and Statistics at the Credit Union National Association  
30 in Madison, Wisconsin. I think you will see from the





1 brief: how our voluntary association brings people into  
2 the Credit Union, and then the leagues, and then various  
3 types of associations that led to this type of development  
4 which results in Dr. Polner undertaking certain collection  
5 of statistics and doing certain research jobs for us.

6 Next to him we have Mr. Tom Gauley, who is a  
7 partner in the firm of Francis, Gauley and Hughes, Sask-  
8 atoon, Saskatchewan. Mr. Gauley has been the Legal  
9 Adviser both to myself and my associates in preparing  
10 our submission to this Commission.

11 Next to him, and right next to me is Mr. Harry  
12 Daley, who is the Manager of the New Brunswick Credit  
13 Union Federation of Saint John, New Brunswick. Mr. Daley,  
14 I think anti dates me somewhat in length of service to  
15 the Credit Union movement most of which, up until recent  
16 years, has been voluntary as has been mine.

17 Next to me is the Managing Director of the  
18 Credit Union National Association from Madison, Wisconsin,  
19 Mr. J. Orrin Shipe, again a gentleman of many years ex-  
20 perience in our type of organization and a very knowledge-  
21 able person.

22 Next to him is Mr. Robert Ingram, the Manager  
23 of what we call our Canadian Office of the Credit Union  
24 National Association, Hamilton, Ontario, again a person  
25 who is knowledgeable to the extent of the development  
26 across Canada.

27 Next to him is Mr. David Weinberg, who is the  
28 Director of the Legal and Legislative Department of the  
29 Credit Union National Association in Washington, D.C.,  
30 again a man whose job, in our view, is to keep in touch





1 with legislative development in various fields which might  
2 affect us. For this purpose we use him.

3 Now Mr. Chairman that's about all the inform-  
4 ation I can give you. As I say, this is a very unique  
2 5 experience for me. Having had breakfast largely on  
6 tranquillizers, I hope we can get through the day.

7 THE CHAIRMAN: You seem to be very well support-  
8 ed indeed, Mr. Glen. From here on in, I don't think any-  
9 body needs stand, unless you wish to do so. We have asked  
10 our counsel, Mr. Stewart, to be so kind as to attend and  
11 to lead the questions. We wish to be sure our questions  
12 are complete and are careful. This means that you prob-  
13 ably will have seven questions instead of six because  
14 we shall certainly reserve the right to ask a few our-  
15 selves.

16 Mr. Stewart, will you proceed? I think we are  
17 now ready to go ahead.

18 MR. STEWART: Thank you Mr. Chairman. Gentlemen,  
19 I have looked, of course, at your submission and at  
20 the various exhibits to the submission itself. I would  
21 like to start with a few questions relating to your or-  
22 ganization and to the functioning of Credit Unions.

23 Now I take it that the organization which has  
24 filed this submission, Credit Union National Association  
25 Inc., is a Corporation which was organized under the laws  
26 of one of the United States. That is correct, and that  
27 it has a Canadian branch?

28 MR. GLEN: Not exactly a branch sir. How would  
29 you describe that Mr. Shipe?

30 MR. SHIPE: If I may, the Credit Union National





1 Association is incorporated under the Non-Profit Membership  
2 Act of the State of New York and in Canada we really do  
3 have what you might consider an operation headed up by  
4 Mr. Ingram. This is more so than any other country be-  
5 cause Credit Union National is really international, serving  
6 Credit Union Leagues in South America, Central America,  
7 Africa, Phillipines and the Far East.

8 MR. STEWART: In any event, this New York Cor-  
9 poration has offices or a place of business in Canada,  
10 and that is where Mr. Ingram flourishes.

11 MR. SHIPE: That is correct sir.

12 MR. STEWART: Now the Canadian members of this  
13 organization are the Provincial Credit Leagues. Is that  
14 correct?

15 MR. SHIPE: That is correct.

16 MR. STEWART: Is the Credit Leagues sometimes  
17 termed a central?

18 MR. SHIPE: No.

19 MR. STEWART: What is the distinction between  
20 a league and a central?

21 MR. GLEN: Well if I could give you an example  
22 from British Columbia, with which I am, of course, most  
23 familiar. The league there is the association of the  
24 various Credit Unions throughout the province, of which  
25 we have some 300 for educational purposes.

26 MR. STEWART: What is a central?

27 MR. GLEN: Well the central is the association  
28 of most of those same Credit Unions banded together to  
29 use their -- if there is a surplus of funds developed by  
30 the Credit Union, that is left with the central and we





1 have our situations in the province where the Credit  
2 Union, perhaps in the community next to mine, may require  
3 the use of the funds of our members and we use this central  
4 as a sort of exchange. It's a Credit Union for Credit  
5 Unions actually.

6 MR. STEWART: Incidentally, when you refer among  
7 yourselves to this Credit Union National Association In-  
8 corporated, do you use the abbreviation CUNA?

9 MR. GLEN: Yes.

10 MR. STEWART: Well then I perhaps would like to  
11 do the same during our discussion this morning. Then  
12 does CUNA itself act as a credit union, or is it an ed-  
13 ucational organization of the same type as a league?

14 MR. GLEN: It's an educational organization of  
15 the same type as the league.

16 MR. STEWART: I would like to ask some questions  
17 about the underlying credit unions. First of all, and  
18 I should indicate that some of these next questions will  
19 have a legal flavour, I take it that Credit Unions in  
20 Canada, at any rate, are incorporated companies?

21 MR. GAULEY: Yes, under provincial legislation  
22 in the various provinces.

23 MR. STEWART: And they are separate legal  
24 personalities in the legal sense of the word?

25 MR. GAULEY: Yes.

26 MR. STEWART: And the assets of a particular  
27 Credit Union, or Corporation are assets of the Union or  
28 the Corporations and not of the members?

29 MR. GAULEY: In a technical sense.

30 MR. STEWART: In the legal sense?





1 MR. GAULEY: The legal title to them is vested  
2 in the corporation.

3 MR. STEWART: The members of the Union are not  
4 personally responsible for the obligations of the Union?

5 MR. GAULEY: No.

6 MR. STEWART: Then the Credit Union, I judge  
7 from your material, may have paid employees or it may have  
8 voluntary workers or may have both. Is that a fair state-  
9 ment?

10 MR. GLEN: Yes.

11 MR. STEWART: To the extent that it has paid  
12 employees, they are employees ~~of~~ and they are paid by the  
13 Union?

14 MR. GLEN: This is generally true. There are  
15 some variations where a person who is an elected volunteer  
16 will receive an honorarium for performing actual work,  
17 or even receive a small salary. You get this interlocking  
18 of the policy-making responsibility as well as managerial  
19 responsibility.

20 MR. STEWART: In any event, a full-time employee  
21 is an employee of the Credit Union and is paid by it?

22 MR. GLEN: Yes.

23 MR. STEWART: Would it be fair to summarize  
24 the basic objectives of Credit Unions as encouragement  
25 of thrift among its members, the making of low-cost loans  
26 to its members and the provision of related services to  
27 its members?

28 MR. GLEN: I did not catch the last part of  
29 your question.

30 MR. STEWART: The provision of related services





1 to its members?

2 MR. GLEN: I think this is a fair summary.

3 MR. STEWART: Now the members of the Credit  
4 Union, I take it, come within a particular occupational  
5 or other group?

6 MR. GLEN: Well it depends what you mean by  
7 "other group" but generally it is a grouping.

8 MR. STEWART: One of the schedules to your sub-  
9 mission is the International Credit Union Year Book in  
10 1963 and I would like to refer, in connection with this  
11 grouping, to Page 8 of that book and to Chart 6 which  
12 appears on that page. That chart is entitled "Distrib-  
13 ution of Credit Unions by Classification" and I observe  
14 that the classifications are: church, residential, man-  
15 ufacturing, educational and so on and that in the second  
16 column you have the relevant information with regard to  
17 Canada and it appears from that column, if I understand  
18 it correctly, that 48.28 per cent of the Credit Unions  
19 in Canada, to the time this chart relates, were what you  
20 describe as Residential Credit Unions and I gather by that  
21 you mean Credit Unions which are composed of people  
22 living in the same community? Is that correct?

23 MR. GLEN: Yes.

24 MR. STEWART: And the principal categories of  
25 Credit Union in Canada, apart from the residential ones,  
26 are manufacturing and church Credit Unions. Is that  
27 correct?

28 MR. GLEN: Yes.

29 MR. STEWART: Now this chart which relates to  
30 distribution by types, and it does not relate to the





1 numbers of members in the particular type.

2 MR. GLEN: Yes.

3 MR. STEWART: And I take it that the numbers  
4 of members in particular unions will vary a good deal?

5 MR. GLEN: Regardless of type?

6 MR. STEWART: Yes.

7 MR. GLEN: Yes.

8 MR. STEWART: Can you indicate to us the member-  
9 ship range of a relatively small Credit Union? What would  
10 the membership range in a comparatively small Credit Union  
11 be?

12 MR. GLEN: I think this is somewhat dependent  
13 upon the various provincial statutes, sir. The smallest  
14 Credit Union, obviously, would be one that has just been  
15 organized and in some provinces, and again I suggest  
16 British Columbia, ten people are required for a Charter,  
17 so this would be the smallest unit in that particular  
18 instance. Now I am not familiar with the requirements of  
19 other provinces but I believe it is generally the same.

20 MR. STEWART: After a Credit Union, which may  
21 have started with ten members, has been going for a few  
22 years, would a small one have fewer than fifty members?  
23 Fewer than one hundred members? Somewhere in that range?

24 MR. GLEN: Are you asking me what we would call  
25 a small Credit Union?

26 MR. STEWART: Yes.

27 MR. GLEN: This would be up to 200 members.

28 MR. STEWART: What would you regard as a large  
29 Credit Union?

30 MR. GLEN: In the general category of large?





1 MR. STEWART: Yes.

2 MR. GLEN: Oh a thousand, fifteen hundred  
3 members.

4 MR. STEWART: What would the largest Credit  
5 Union in Canada be? How large would that be?

6 MR. GLEN: Mr. Ingram do you have any figures?

7 MR. INGRAM: They range between 9 and 10 thousand  
8 members, but there are very few of these.

9 MR. STEWART: Now I would like to explore with  
10 you for a few minutes just how Credit Unions acquire their  
11 capital, and I take it that one of the methods by which  
12 they acquire capital is through the sale of shares to  
13 your members?

14 MR. GLEN: We don't call it sale of shares  
15 sir but capital is acquired through the acquisition of  
16 shares. This is through the members' savings and putting  
17 it into what we call their share accounts.

18 I am rather struck by the unusual way you put  
19 it of selling shares. This is rather foreign language  
20 to my concept of it.

21 MR. STEWART: Nothing was intended to turn on  
22 the word "sale". You prefer to use the word "acquisition"?

23 MR. GLEN: Well, savings.

24 MR. STEWART: All right, savings.

25 MR. GLEN: The point being sir, at least in  
26 my view when you buy a share you receive some physical  
27 evidence, a certificate or something. Our members are  
28 not -- they don't look on it as buying shares. They are  
29 adding to their savings and we call them shares, because,  
30 for the purpose of accounting, and so on, they are divided





1 into \$5.00 units.

2 MR. STEWART: This \$5 unit is the common unit  
3 in Canada, is it?

4 MR. GLEN: Yes.

5 MR. STEWART: So that if a member is carrying  
6 on this savings process, he makes deposits in his savings  
7 account or share account and you determine the number of  
8 shares or units that he has by dividing the total by \$5.  
9 Is that the idea?

10 MR. GLEN: Yes.

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1 MR. STEWART: Do I understand that in your move-  
2 ment no matter what the balance in the member share account,  
3 when it comes to meetings and proceedings each member  
4 simply has one vote.

5 MR. GLEN: He must hold one share. If a member  
6 had a balance of \$4.99 we say he is not a member in good  
7 standing, but generally your question is correct, regard-  
8 less of how many he holds he only has one vote, but there  
9 are other qualifications. Our members pay annual dues  
10 to the organization and these must be kept up.

11 MR. STEWART: Do you become a member only when  
12 you have \$5.00 to your credit?

13 MR. GLEN: You become a member immediately  
14 your application is accepted by the Board of Directors.  
15 Usually we ask for a good faith token. That could be  
16 anywhere from twenty-five cents to \$1.00 but as the  
17 privileges of membership are not extended until a share  
18 is acquired.

19 THE CHAIRMAN: How do you have a membership  
20 which is not entitled to privileges? Is he not just in  
21 bad standing and if he fails to pay \$5.00 he is out?

22 MR. GLEN: Generally speaking that is correct.  
23 The Provincial Statute in British Columbia states in  
24 order to remain in good standing as a member he must add  
25 to his share savings over a period of years. If he doesn't  
26 do this he is not in good standing and can be expelled by  
27 the Directors. I will admit we have expelled some for  
28 this reason. It is very difficult to deal with a member  
29 in this sort of predicament where something has happened,  
30 where there is inability to add to savings and we don't





1 exercise this power arbitrarily, but in some cases where  
2 obviously a person has just joined as a matter of curiosity  
3 and has no intention of following the responsibilities  
4 of membership we persuade him to withdraw.

5 MR. STEWART: Mr. Glen, I think we should pro-  
6 ceed to try to make this arrangement: when you speak of  
7 the practice in British Columbia if any of those other  
8 gentlemen here know of any material difference between  
9 the British Columbia practice and the practice elsewhere  
10 in Canada I hope ~~they~~ they will say so or else we will assume  
11 that British Columbia is typical of the country.

12 COMMISSIONER WALL: That would never do, Mr.  
13 Stewart.

14 MR. GLEN: I have a responsibility to my coll-  
15 eagues, sir, not to put them in a position they can't  
16 justify. When I was making reference to a particular  
17 province I agree that they will sing out, but I will try  
18 to stress throughout Canada, to the best of my knowledge,  
19 these are the situations.

20 MR. STEWART: Mr. Walls, leadership is leader-  
21 ship. Well now, when you speak of members of a Credit  
22 Union, these people who have share accounts are the members,  
23 and are they the people who, if you like, have a prop-  
24 rietory interest in the Credit Union? That is,, perhaps,  
25 a legal question.

26 MR. GLEN: If it is a legal question I would  
27 have to perhaps refer it to one of my associates. I  
28 think on the part of the adult member there is a sort  
29 of proprietorship. I don't just think this, I know this  
30 is true because of the problems with the people whom they





1 ~~to~~ allocate ~~their~~ powers at general meeting time. There  
2 are, of course, other types of membership where this  
3 proprietary aspect may not be as apparent. I speak, of  
4 course, of the children. We have many many children. It  
5 is quite common for children to be enrolled as Credit  
6 Union members almost at birth because they want to make  
7 them acquainted with what we think is a really wonderful  
8 remunerative type of thing.

9 MR. STEWART: Are they voting members?

10 MR. GLEN: No.

11 MR. STEWART: At what age do you acquire voting  
12 power? in this movement?

13 MR. GLEN: Generally I would say -- maybe you  
14 had better field that. There are several classifica-  
15 tions.

16 MR. INGRAM: Normally I would suggest that the  
17 voting age varies from one province from another. Most  
18 of the ~~pro~~vinces would permit a member to vote if they  
19 are a full fledged member. A child at the age of reason,  
20 7 or 8 years of age, it is permitted, but it is not  
21 common practice.

22 MR. STEWART: What would common practice be?

23 MR. INGRAM: The common practice would be that  
24 children don't normally carry a vote at the annual or  
25 special meetings.

26 THE CHAIRMAN: Common practice -- perhaps you  
27 were going to ask whether common practice is something  
28 written down or just what develops at the meetings?

29 MR. STEWART: Could you answer the Chairman on  
30 this?





1 MR. GLEN: Generally membership over 16 years of  
2 age customarily has voting privileges providing they have  
3 met the saving requirements. In some provinces this  
4 may vary upward, not downward.

5 MR. STEWART: Now, the practice, I take it, is  
6 to pay dividends on the shares to these Credit Unions?

7 MR. GLEN: Yes.

8 MR. STEWART: Can you tell the Commission what  
9 the normal current range of dividend payments is?

10 MR. GLEN: Canada-wide?

11 MR. STEWART: Yes.

12 MR. GLEN: I would say to the best of my know-  
13 ledge it ranges between  $3\frac{1}{2}$  and 4 per cent. I think per-  
14 haps Dr. Polner would be more knowledgeable in this area.

15 DR. POLNER: We have just completed a study of  
16 the dividend rate paid by Credit Unions in Canada by  
17 selected provinces; that means all the provinces we  
18 know of. Without pinning me down to each individual  
19 province the median is 4 per cent at the end of fiscal  
20 or calendar year 1962.

21 MR. STEWART: I notice in your submission on  
22 Page 11 in Paragraph 40 you say that during 1962 the rate  
23 in most provinces ranged from 3 to 5 per cent. Mr. Polner  
24 figure of course, is right in the middle of that range.

25 THE CHAIRMAN: I wonder whether the mean  
26 average would vary very much from the median? Do you  
27 know, Dr. Polner?

28 DR. POLNER: I couldn't remember what was in  
29 the study. I do know the median because of the figures we  
30 had discovered between the areas, and the median median





1 stuck in my memory. The mean average I would have to go  
2 back and look up my data.

3 MR. STEWART: These shares, Mr. Glen, are re-  
4 deemable by any member on giving certain notice to the  
5 Credit Union?

6 MR. GLEN: Yes.

7 MR. STEWART: Is a normal period of notice such  
8 as 60 days?

9 MR. GLEN: Thirty days, 60 days -- the Board  
10 of Directors have a certain amount of discretion in this  
11 area.

12 MR. STEWART: If you regard the arrangement  
13 between the member and the Credit Union as more the making  
14 of a deposit than the purchase of shares then that means,  
15 in fact, that the deposits ~~have~~ can be withdrawn only  
16 after a period of notice?

17 MR. GLEN: Most of the laws provide for this.  
18 In practice the period of notice isn't generally required.  
19 In many cases the shares are what is offered as security  
20 when the member borrows. In this case according to the  
21 decision of the Directors these shares cannot be withdrawn  
22 or transferred.

23 MR. STEWART: So long as the member is indebted  
24 to the Union?

25 MR. GLEN: Yes. This is generally because they  
26 have no other security, you see.

27 MR. STEWART: Well then, the share method is  
28 one method of transferring capital. I take it that the  
29 Credit Union also acquires funds for its purposes through  
30 acceptance of deposits from its members?





1 MR. GLEN: Not all of them, some do.

2 MR. STEWART: Some do. Will you accept a deposit  
3 only ~~from~~ a member?

4 MR. GLEN: We don't do ~~any~~ business with any non-  
5 members.

6 MR. STEWART: So you wouldn't accept a deposit  
7 from a non-member?

8 MR. GLEN: No.

9 MR. STEWART: On these deposits you pay what  
10 you call interest?

11 MR. GLEN: Yes.

12 MR. STEWART: Is there a **current** standard,  
13 current ~~rate of~~ interest which is paid?

14 MR. GLEN: Not to my knowledge.

15 MR. STEWART: Can you tell us what the range  
16 is?

17 MR. GLEN: No, I don't think I could, sir.  
18 I again, without citing a province which will be nameless,  
19 the problem here is we don't have any system really of  
20 quoting non-member provinces. We are rather insular in  
21 that respect, I think.

22 MR. STEWART: Now, I have a note here which  
23 is to the effect that interest rates on deposits vary, —  
24 are also in the range of 3 to 5 per cent. I don't re-  
25 call at the moment whether I got that from your brief or  
26 from one of the other Credit Union briefs.

27 MR. GLEN: May I say this: I agree with you  
28 if you mention 3 to 5 per cent, that this would be the  
29 case.

30 MR. STEWART: That is enough for my purposes.





1 I am not trying to pinpoint it.

2 MR. GLEN: The same range.

3 THE CHAIRMAN: Mr. Stewart, wouldn't it follow  
4 that interest rates on deposits would be the same as  
5 dividend rates on shares? Are not the deposits on shares  
6 about the same thing? Could you answer me that?

7 MR. GLEN: My own view would be, sir, the  
8 Credit Union might have a slightly higher return on de-  
9 posits because I think those Credit Unions which use the  
10 deposit system of acquiring capital are going to have a  
11 little more stability and the general practice with shares  
12 is that even though notice is required by law this isn't  
13 usually observed and you will find there is a fair amount  
14 of turnover in share capital. The Credit Union which may  
15 be trying to do a particular job for their members at  
16 their request in one particular field, if they give more  
17 stability they will ask their members if they will leave  
18 on deposit their money for a specific period of time and  
19 for this the Union will probably pay them a slightly better  
20 rate than it is customary to pay for share dividends.  
21 These share dividend rate is subject to fluctuation depend-  
22 ing on the wishes of the membership. It seems to me  
23 that these Credit Unions I know of that are doing this  
24 are careful not to project themselves too far into the  
25 future to create imbalance between the shares and deposits.  
26 This leads sometimes to conflicts within the members  
27 themselves.

28 COMMISSIONER GRANT: Might I intervene here  
29 in an effort to clarify this situation, at least my own  
30 thinking on it. I am wondering if the distinction be-





1   tween the share and the deposit arises at the time when  
2   you are allocating your interest or your dividend to those  
3   members who pay money and therefore you look at their  
4   account and you see they have \$100 at the credit of their  
5   account, which if the shares are valued at \$5 would mean  
6   they then had 20 shares. I am only suggesting this as  
7   a means of getting at the current situation as quickly  
8   as possible. Is there any difference between the deposit  
9   and share interest when it comes to a constitutional  
10   matter within the Union?

11           MR. STEWART: Mr. Grant, could I lead into that  
12   question with some preliminary ones because I think it  
13   is important and I would like to be sure that we agree  
14   on the background?

15           COMMISSIONER GRANT: Yes.

16           MR. STEWART: Mr. Glen, I am interested in your  
17   view the rate on deposits may exceed the dividend rates,  
18   and if time permits I will come back to that one a little  
19   later because my impression had been that in some juris-  
20   dictions, at any rate, the practice was the other way.  
21   However, would it be accurate to say that the relative  
22   importance of shares and deposits vary from province to  
23   province in Canada?

24           MR. GLEN: Yes, I think that this would be true.

25           MR. STEWART: Could you say whether or not in  
26   the province of Quebec the Credit Unions primarily pro-  
27   ceed by the deposit method as opposed to the share method?

28           MR. GLEN: This is a difficult question. There  
29   are two types of operations in the Province of Quebec.  
30   There is the Caisse Populaire who are sort of the forefathers





1 of the Credit Unions and my understanding is they operate  
2 primarily on the deposit relationship, and then, of course,  
3 we have the Credit Unions which operate primarily on share  
4 relationship.

5 MR. STEWART: What are the relative assets of  
6 Caisse Populaire on the one hand and the Credit Unions  
7 in Quebec on the other?

8 DR. POLNER: There is a report dividing Canada  
9 which generally gives you this type of breakout. It is  
10 turned out by the Department of Agriculture.

11 MR. INGRAM: I could get this for you in a  
12 moment, Mr. Stewart.

13 MR. STEWART: Now, in other provinces, Mr.  
14 Glen, I take it from what you have just said the share  
15 method is the more important method; is that correct?

16 MR. GLEN: Yes, most of the savings of our  
17 members are saved in shares.

18 MR. STEWART: Well now, when we come to this  
19 question of interest on deposits when is the interest  
20 rate for a particular year determined?

21 MR. GLEN: I am afraid I couldn't answer that,;  
22 sir. I know in some cases no interest is paid on a  
23 deposit at all. Just when the rates might be assigned,  
24 if you want to put it that way, I am unable to say. I  
25 think probably at the time the deposit was accepted what-  
26 ever the Board of Directors has determined that they are  
27 prepared to offer the members, this would be it.

28 MR. STEWART: Do you know of unions that pay  
29 no interest on deposits at all?

30 MR. GLEN: Yes.





1 MR. STEWART: Do they get any depositors?

2 MR. GLEN: You have what I would call the  
3 Christmas Club. We have members who are trying to accum-  
4 ulate some funds for Christmas so we say you put those  
5 on deposit. You get into the regular habit of putting  
6 something aside for Christmas and you may leave this on  
7 deposit with our Credit Union and at an appropriate time  
8 we will pay this to you. For many reasons we can't put  
9 these funds into shares because shares may be pledged  
10 for a loan and once the money is in a share account  
11 Christmas will go by the boards. We do this and there  
12 is no return paid on it at all.

13 MR. STEWART: Have you the information yet,  
14 Mr. Ingram?

15 MR. INGRAM: In answer to your question, Mr.  
16 Stewart, in Quebec the Caisse Populaire have accumulated --  
17 this is at the end of 1962 -- \$63.2 million in share cap-  
18 ital and \$753.4 million dollars in deposit capital.  
19 Turning to the Credit Union the share capital is \$21.2  
20 million and deposit capital \$4.3 million.

21 MR. STEWART: In the Province of Quebec at the  
22 present time the Caisse Populaire are more important so  
23 far as assets, , at any rate, are concerned than the  
24 Credit Union; is that correct?

25 MR. INGRAM: In terms of dollars and cents.

26 MR. STEWART: Well now, I wonder if any of you  
27 gentlemen who come from areas where interest is paid on  
28 deposits can say when the deposit rate is determined,  
29 that is the interest rate on deposits is determined?  
30

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1 MR. GLEN: I don't think we have anyone here  
2 who is particularly knowledgeable in that area. All I  
3 can suggest to you sir, to my knowledge it is set by the  
4 Boards of Directors usually annually.

5 MR. STEWART: So that it would be set at a  
6 given period of time in a particular case, and that rate  
7 would apply until it is changed by the Board of Directors?

8 MR. GLEN: It has a very close relationship  
9 with the dividends paid on share capital. I think the  
10 Boards of Directors would be constantly looking at this  
11 situation and would not want to be committing the  
12 Credit Union to a long period of payment of a certain  
13 amount of money which we had no assurance that we could  
14 continue to do.

15 MR. STEWART: Now Mr. Glen, let me put this to  
16 you: if you are seeking deposits in a particular Credit  
17 Union, then does that money come in on the basis that a  
18 particular amount of interest will be paid until the  
19 Union changes the rate, whereas, if you have money in  
20 share accounts, does the rate which is paid not depend  
21 on the success of operations in the future so that the  
22 rate could not be determined until the particular period  
23 was over?

24 MR. GLEN: I think generally you are right  
25 sir. The problem in this, where I have difficulty in  
26 answering the question, when we are dealing with some  
27 people, they can only contribute so much money out of  
28 their earnings to the organization and whether it comes  
29 in in shares, or whether it comes in in deposits, in  
30 my view does not make too much difference. It's the





1 problem of retaining that money over a reasonably long  
2 period of time to enable ~~the~~ Credit Unions to meet the  
3 obligations perhaps of one section of its membership.

4 MR. STEWART: For each member you will have  
5 at least two accounts. You will have a share account and  
6 you will have a deposit account, if he makes a deposit?

7 MR. GLEN: No, only if the member is going to  
8 deposit. Now some Credit Unions will not permit a member  
9 to have a deposit account unless he has a certain amount  
10 in ~~his~~ share account.

11 MR. STEWART: Supposing Mr. Jones has been a  
12 member for some time. He has an adequate balance in his  
13 share account, and then he chooses to make a deposit.  
14 Now at that point does the amount he deposits go into  
15 his share account or into a separate deposit account?

16 MR. GLEN: I don't think you can say that  
17 the member chooses to make a deposit, if the Credit Union  
18 is not willing to accept his deposit. I am distinguishing  
19 between share accounts and deposit accounts.

20 MR. STEWART: I am trying to establish whether  
21 there are separate share accounts and separate deposit  
22 accounts?

23 MR. GLEN: Yes. I know this, this is a separate  
24 thing in these instances. It's the Boards of Directors  
25 who will decide whether the Credit Union is going to  
26 accept a deposit or not.

27 MR. STEWART: And if it is prepared to accept  
28 deposits, and a particular member wishes to make a deposit,  
29 the amount he deposits goes into a separate account?

30 MR. GLEN: Yes. Now I see what the problem is.





1 The use of the word "deposit" is what is confusingus.  
2 It's not the same as a deposit in a financial institution  
3 of other types.

4 MR. STEWART: Have you any word that you use  
5 in your movement other than "deposit"? Perhaps I am mis-  
6 leading you.

7 Mr. GLEN: We use the word "payment". Payment  
8 of shares. Payment of loans. Payment of deposits.

9 MR. STEWART: So that you use the word "payment"  
10 to relate to all three types of transactions; the payment  
11 into a share account, payment into a deposit account  
12 and payment into a loan account?

13 MR. GLEN: Yes. We have our own terminology  
14 which we understand. I am afraid many other people do  
15 not.

16 MR. STEWART: Is the word "payment" used at  
17 all?

18 THE CHAIRMAN: Is it payment in or payment out?  
19 How do they distinguish?

20 MR. INGRAM: Mr. Chairman, perhaps I can throw  
21 a little bit of light on that area of confusion here.  
22 In a general sense the Credit Unions do not make any real  
23 distinction between shares and deposit. Depending on the  
24 jurisdictional area and the autonomous wishes of each  
25 individual Credit Union and depending upon the provincial  
26 law under which they operate, the Credit Union may decide  
27 to call all of their collective savings from their members,  
28 may decide to call it, for the most part, deposits.

29 In the case of Caisse Populaire, they have  
30 the practice of simply issuing or taking as a credit to





1 their member one share and the balance of his savings  
2 is called deposits. This is not normally so in the  
3 English speaking Credit Union. The common practice is  
4 to call all of these savings shares, even though the law  
5 does provide for the deposit accounts.

6 Now admittedly many of our Credit Unions, par-  
7 ticularly in the western provinces, have, in addition  
8 to share accounts, deposit accounts. As Mr. Glen has  
9 pointed out, there are various reasons for this. I  
10 would suggest that in a general sense we would call,  
11 or we would term shares to be more in the nature of a long-  
12 term deposit, and would classify, I think again in a  
13 general way, deposits as temporary funds, temporary sav-  
14 ings of members which they expect to withdraw in some  
15 reasonable time in the future.

16 MR. STEWART: Thank you very much. What then  
17 is the essential distinction, if there is one, between  
18 dividends on shares and interest on these deposits?

19 MR. INGRAM: Here again I would say there is  
20 a legal difference, of course, but in actual practice  
21 the question of paying an interest rate on deposits, as  
22 opposed to dividend on shares, is generally a matter of  
23 decision by the annual meeting of each Credit Union.

24 MR. STEWART: But coming back to a point I  
25 was touching on earlier, if you get to an annual meeting,  
26 and you come to the question of the dividend, the rate  
27 of dividend relates to the operation of the previous  
28 period?

29 MR. INGRAM: Correct.

30 MR. STEWART: But the rate of interest would





1 relate, on the deposit made, would relate to the pros-  
2 pective period?

3 MR. INGRAM: In most cases, but not always.

4 In some cases you also find that your savings are allocated  
5 in the three ways: dividends on shares, interest on  
6 deposits and rebates on loans.

7 MR. STEWART: So that on that basis, if a  
8 member makes a deposit, he may not be entitled to any  
9 interest at all until the following annual meeting decides  
10 that interest will be paid on deposits?

11 MR. INGRAM: It is conceivable, yes.

12 MR. STEWART: On that basis there is no legal  
13 entitlement to interest?

14 MR. INGRAM: Not necessarily, but we still have  
15 a very strong belief that the members, for the most part,  
16 do not join in a Credit Union for the simple result of get-  
17 ting a high return on their savings, even though we feel  
18 they are entitled to a fair return if the funds in the  
19 savings are available to them.

20 THE CHAIRMAN: I am not clear whether "not  
21 necessarily" is the same as "no". You asked about legal  
22 entitlement. Does that mean sometimes there is and  
23 sometimes there is not legal entitlement to interest?

24 MR. INGRAM: Legal entitlement would be a  
25 matter of the by-laws of the individual Credit Union,  
26 whether they provide for it or not.

27 THE CHAIRMAN: Sometimes there would be?

28 MR. INGRAM: Yes.

29 MR. STEWART: When you say sometimes there  
30 would be, when the by-law indicates that the interest





1 is payable on deposits, will it go further and state the  
2 rate of interest?

3 MR. INGRAM: Normally the by-law would not  
4 state a specific rate.

5 MR. STEWART: So that if you have that type of  
6 by-law, which does not specify a particular rate, and Mr.  
7 Jones has made his deposit on the first of January, there  
8 is no amount of interest, no determined amount of interest  
9 that he can claim until the annual meeting after the  
10 following 31st of December?

11 MR. INGRAM: Unless the Credit Union in that  
12 previous annual meeting has so stated.

13 MR. STEWART: In other words, they have de  
14 termined the rate prospectively?

15 MR. INGRAM: That is right. Then there would  
16 be legal entitlement.

17 MR. STEWART: I notice in your submission on  
18 Page 12, in Paragraph 42 you say, towards the end of that  
19 paragraph that the dividend on shares "is essentially,  
20 if not legally, interest." We appear, from what you have  
21 said, to have a somewhat nebulous distinction in your  
22 movement between dividends on shares and interest on  
23 deposits. Would you care to comment on that proposition?

24 MR. SHIPE: I think perhaps you are putting it  
25 correctly. This difference between shares and deposits  
26 comes right down to some people like a Chevrolet, some  
27 people like a Ford; just about that much difference in a  
28 general sense. The members of the Credit Union who use  
29 shares, outside the Caisse groups, look upon it as being  
30 a permanent or more or less permanent type of savings. Those  
who use deposits and the trend has been away from deposits





as the Credit Union movement has gained age, look upon it as being normally savings on which they would like to have some kind of a return. Now I think you are correct when you say there is a degree of nebulousness about the shares and the deposit aspect.

MR. STEWART: Thank you very much.

THE CHAIRMAN: Before you leave that point, Mr. Stewart, you may know the answer to this yourself, but I do not think I do. If these are legal dividends, are they entitled to the dividend tax credit?

MR. STEWART: Mr. Chairman, as a legal matter I think the answer must be no. because the Credit Union is exempt from taxes.

THE CHAIRMAN: Is that so spelled out in the Act?

MR. STEWART: Yes, Section 62, (1) (K).

THE CHAIRMAN: Thank you.

MR. STEWART: Well then so far as these deposits are concerned, what is the general arrangement with regard to withdrawals? Do you have, again, theoretically at any rate, a waiting period?

MR. SHIPE: Theoretically, under the law but the operation of the Credit Union, from the standpoint of deposits, is that the member can withdraw them before the end of the dividend period and still have a return on them.

MR. STEWART: You said before the end of the dividend period.

MR. SHIPE: Most Credit Unions operate on the basis your shares have to be left in the Credit Union





1 until December 31st and then the dividend is paid on that  
2 basis, so you treat it on the basis of pro-rated number  
3 of months that it is in the Credit Union, provided that  
4 they were left there until December 31st.

5 MR. STEWART: Again I was perhaps labouring  
6 a distinction too hard. We have already discussed the  
7 right to withdraw; to have shares redeemed. Now I am  
8 addressing myself to deposits as opposed to amounts in  
9 share accounts. If you want to get a deposit out, part  
10 of your deposit out, part of what you have loaned to the  
11 Union, can you get that out without notice, or is there  
12 a period of notice?

13 MR. SHIPE: The general practice is without  
14 notice.

15 MR. STEWART: Do Credit Unions borrow from people  
16 other than their members, and if so, from whom?

17 MR. INGRAM: I would say this, that generally  
18 speaking the Credit Unions use the accumulated savings  
19 of their own members but on occasion, and primarily for  
20 temporary or seasonal reasons, the Credit Union may find  
21 it necessary to borrow from other organizations. The  
22 prime source of such borrowing is the Central Credit  
23 Union in the Province in which the Credit Union is loc-  
24 ated, which is the specific purpose for the creation of  
25 the operation of what we call the Central or Credit  
26 Society of the province.

27 MR. STEWART: Would they ever borrow from the  
28 chartered banks?

29 MR. INGRAM: Yes. This is done on occasion.

30 MR. STEWART: Is there any limit on the borrowing





1 power of a Credit Union?

2 MR. INGRAM: The borrower is generally limited  
3 by law, the provincial law which again, in general, would  
4 limit the borrowing power of a Credit Union to 25 per  
5 cent of its, what the law calls paid up shares or deposits  
6 on the authority of the Board of Directors. In some cases,  
7 under some provincial jurisdictions, it's up to 50 per  
8 cent of the unimpaired share capital deposit on the  
9 authority of an annual or special meeting..

10 MR. STEWART: If you are borrowing, from a bank  
11 Central, what rate would you expect to pay on the amount  
12 borrowed?

13 MR. INGRAM: This again would vary from province  
14 to province. On the average I would suggest probably 5  
15 per cent per annum would be the most commonly effective  
16 borrowing rates..

17 MR. STEWART: Now that is the current rate,  
18 or is that pretty much fixed regardless of the current  
19 bank rate?

20 MR. INGRAM: This would be an average current  
21 rate.

22 MR. STEWART: When you say current, you mean  
23 to-day. Has that rate varied from year to year or from  
24 period to period?

25 MR. INGRAM: This would vary slightly over the  
26 past number of years, yes.

27 MR. STEWART: And would the variance reflect  
28 changes in, let us say, the prime bank rate on loans?

29 MR. INGRAM: To a minor degree this would be  
30 true, but in the main I think the variance would be be-





1 cause of the general operation of the Central, not nec-  
2 essarily a prime bank rate, except, again, on seasonal  
3 occasions or temporary occasions when the Central may have  
4 to borrow from the chartered banks.

5 MR. STEWART: So that the prime rate would have  
6 some effect on the end rate, as it were, then the funds  
7 which the Credit Union acquired, no matter how it acquired  
8 them, are utilized, I take it, primarily in making loans  
9 to members. Is that correct?

10 MR. GLEN: I would say exclusively sir.

11 MR. STEWART: I will come back to the exclusively,  
12 but this is the basic purpose of the operation, in any  
13 event?

14 MR. GLEN: To serve the needs of members.

15 MR. STEWART: And the interest rate which may  
16 be charged on these loans is approximately what?

17 MR. GLEN: May be charged on loans to the  
18 members?

19 MR. STEWART: Yes.

20 MR. GLEN: The most common practice that we  
21 follow is the one per cent per month on the unpaid balance.

22 MR. STEWART: Well now I have understood that  
23 the one per cent is a maximum.

24 MR. GLEN: Yes.

25 MR. STEWART: And is the maximum in fact char-  
26 ged?

27 MR. GLEN: As a matter of practice, it is my  
28 information it is, yes.

29 MR. STEWART: Each Credit Union will have a  
30 Credit Committee which will screen these requests for





1 loans?

2 MR. GLEN: Yes.

3 MR. STEWART: Is there any limitation on the  
4 purpose for which a member may borrow funds?

5 MR. GLEN: Generally speaking no. The rule of  
6 thumb is for a provident or productive purpose. The  
7 individual Boards of Directors may set a policy as to  
8 which areas the loan shall be made in. We obviously,  
9 I think, are concerned about what might be called the  
10 moral aspects of a loan. We won't loan money to a member  
11 who indicates he wishes to go to the race track and enjoy  
12 himself, for instance.

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1 MR. GLEN: This sort of thing has to be for  
2 the good of the member.

3 MR. STEWART: Is there any minimum or maximum  
4 term of loan?

5 MR. GLEN: This is usually determined by the  
6 Board of Directors of the Credit Union themselves.

7 MR. STEWART: As a matter of general policy?

8 MR. GLEN: Yes.

9 MR. STEWART: What would the maximum be likely  
10 to be.

11 MR. GLEN: It would depend upon the size of  
12 the operation and the views of the directors who have  
13 been elected by the members. Our practice is to serve  
14 as many members if we can. Of course if one member came  
15 along and wanted a loan of 32 thousand dollars and there  
16 were ten members who wanted loans of \$200 apiece then  
17 we would look after the needs of the ten members at \$200  
18 apiece and the 2 thousand dollar application would just  
19 have to wait until there was sufficient additional funds  
20 to service this.

21 DR. POLNER: I would, if I could interject,  
22 I think it is fair to say it is common to provincial leg-  
23 islation that loans must be for provident and productive  
24 purposes.

25 THE CHAIRMAN: I beg your pardon for --

26 DR. POLNER: Provident and productive purposes.  
27 These are characteristics of provincial statutes.

28 MR. STEWART: Coming back to the duration of  
29 the loan, if a member wants a loan for five years would you  
30 consider that?





1 MR. GLEN: It would be considered.

2 MR. STEWART: Would there be any time limit on  
3 the period you would consider?

4 MR. GLEN: In connection with the individual  
5 Board there would be. A lot of it has to do with the  
6 purpose of the loan itself. In some cases the Credit  
7 Committee would say to a member we don't think it is pru-  
8 dent for you to tie yourself up for this period of time.  
9 In view of the economic circumstances this is a long  
10 period of time and therefore you should discard your  
11 application.

12 MR. STEWART: Is there any limit on the amount  
13 that may be loaned? Can the Credit Union loan up to  
14 100 per cent of its assets?

15 MR. GLEN: The limits, I think, are set generally  
16 speaking through the legislation. We are not permitted  
17 to commit all the savings of our members because of the  
18 regulations of Statutory Reserve for withdrawal purposes.

19 MR. STEWART: These Statutory Reserves may not  
20 be encroached on by way of loan?

21 MR. GLEN: No. We set those aside and keep  
22 it available in cases of withdrawal so we cannot loan it  
23 to our members.

24 MR. STEWART: Is this the only statutory limit  
25 on the amount, on the proportion of the proportion of  
26 the assets which may be loaned out?

27 MR. GLEN: Does anyone want to comment on  
28 this? I am not that familiar with statutes all across  
29 the country?

30 MR. INGRAM: Under most statutes Statutory





1 Reserves which are guarantee funds, as we call them, must  
2 be invested or set aside or invested in some other  
3 fashion. Ontario is an example. They permit the loaning  
4 out of their Statutory Reserve to their members if they  
5 so wish.

6 MR. STEWART: Well then, I was interested to  
7 observe that the Caisse Populaire appear to have a  
8 relatively small proportion of their assets out on loan  
9 as compared to the Credit Unions. Can you comment on that,  
10 first of all as to whether I am correct and secondly as  
11 to how it comes about?

12 MR. INGRAM: I don't think we are prepared to  
13 speak on behalf of the Caisse Populaires as such. I  
14 would suggest that there is an essential difference in  
15 the operation of the Credit Union and Caisse Populaires.  
16 Their operations as I understand, are geared to a higher  
17 percentage of investments in other than personal loans  
18 to members. I understand a substantial portion of the  
19 assets of the Caisse Populaires are invested in loaning  
20 out to members by way of mortgages. This is not so common  
21 in the Credit Unions where the large percentage of our  
22 savings are loaned to members by way of consumer credit  
23 or personal loans to members.

24 MR. STEWART: Is it if a particular the Credit  
25 Union has surplus funds not required by its members I  
26 take it you make a loan to the Central?

27 MR. GLEN: We don't regard it as making a loan  
28 to Central. We deposit our surplus funds with the Central.  
29 Our understanding in doing this is the Central will  
30 make it available to other Credit Unions who may have a





1 demand for money.

2 MR. STEWART: What rate would you expect to get  
3 on the deposit?

4 MR. GLEN: Again this will vary according to the  
5 experience of the Central. In my experience we haven't  
6 placed our money on deposit with the Central in the ex-  
7 pectation of receiving anything. We usually do, mind you,  
8 but our Central is a facility for us. It is not necess-  
9 arily an investment for us.

10 MR. STEWART: So when you make funds available  
11 to the Central it is not on the basis of a clear under-  
12 standing that a particular rate will be paid on that amount  
13 until it is repaid?

14 MR. GLEN: Our Credit Unions who belong to the  
15 Central will send delegates to the Central's meetings.  
16 They will elect officers of the Central and if the Central  
17 has had problems with the money which we have left on  
18 deposit with them, no great demand for it, then naturally  
19 we wouldn't expect to receive much in the way of return.  
20 It operates much the same as the Credit Union. If good  
21 use has been made of the funds then the resulting earnings  
22 are distributed back again.

23 MR. STEWART: Do I take it basically you  
24 make funds available to the Central on the basis that you  
25 are getting a reasonable proportion of the gain, the  
26 savings the Central realizes from the use of the money?

27 MR. GLEN: Correct.

28 MR. STEWART: Well then your income of the  
29 Credit Union will include these elements: first the  
30 interest you receive on members' loans, secondly any





1 income you receive from Centrals or other organizations  
2 to which you make monies available and third it would in-  
3 clude investment income derived from your investment port-  
4 folio.

5 MR. GLEN: Perhaps I might ask Mr. Ingram to  
6 answer that because in my experience we don't have an in-  
7 vestment portfolio. Our surplus is with the Central and  
8 there is very little, if any, from so-called investment  
9 portfolio. This may be different in other parts of  
10 Canada.

11 MR. INGRAM: Any returns which would be derived  
12 by the Credit Union from investment would be very incon-  
13 sequential in nature and in size. These are simply  
14 returns from funds which are temporarily not needed by  
15 the Credit Union for loans to members. As far as we are  
16 concerned in the movement which is an insignificant portion  
17 and simply a means of temporarily using funds which are  
18 idle on either seasonal or temporary basis.

19 MR. STEWART: What happens to this Statutory  
20 Reserve, Mr. Ingram? Let me put to you a case of a  
21 large industrial Credit Union with 10 thousand members  
22 which has been in existence for ten years and has built  
23 up a considerable Statutory Reserve. How is that Statutory  
24 Reserve invested?

25 MR. INGRAM: These funds for the most part are  
26 on deposit or left with the Provincial Central. That is  
27 the first and prime source of investment, if you want to use  
28 of the Credit Unions, but for such temporary surplus  
29 funds or Statutory Reserves the first place we suggest  
30 they put those funds is in the Central to which they belong.





1 MR. STEWART: Let me go back and put it this way,  
2 that the income of a Credit Union consists of interest on  
3 loans to its members, number 1; number 2, any interest it  
4 receives from the Central in respect of amounts that it  
5 has made available to the Central and third any relatively  
6 minor amounts of investment income it may have.

7 MR. INGRAM: Right.

8 MR. STEWART: Are these basically the only  
9 categories of income that it receives?

10 MR. INGRAM: I would say so, yes.

11 COMMISSIONER PERRY: Mr. Stewart, before going on  
12 if we could just look at some arithmetic. I am intrigued,  
13 because of my background in another life that I lead, with  
14 the figures that are given. First the savings seem to be  
15 a billion and a half in Canada. Then the loans outstanding  
16 seem to be roughly a billion dollars. There is apparently  
17 half a billion of money here which is not used in loans.  
18 This is rather trivial, the amount held in reserve, which  
19 I assume is over and above this is rather trivial in compar-  
20 ison with a half a billion dollars in idle cash. Where,  
21 in fact is this kept? What form does it take? I under-  
22 stand part of it is kept by Centrals but the tendency  
23 seems to be to minimize this amount. Where does the  
24 rest of it sit? Where was it sitting at the time these  
25 figures were put together.

26 MR. GLEN: May I have the reference, sir?

27 COMMISSIONER PERRY: I have Page 7 of your brief,  
28 but the same figures appear in many places. It is the  
29 paragraph at the very top. The members have a total of  
30 1 billion and a half in savings and loans outstanding of





1 a billion. Half a billion of members resources must  
2 have been held in some form or other, either investment,  
3 bank deposits, deposits with Centrals. I know in chartered  
4 banks this amount would be represented by investment,  
5 deposited in the Bank of Canada.

6 MR. STEWART: If you also refer to Page 27 of  
7 this book I think you may find that the answer to Mr.  
8 Perry's question lies primarily in the Province of Quebec  
9 because under the Quebec column, shares and deposits are  
10 \$916 million but loans outstanding are \$503 million.  
11 Of course, to some extent what Mr. Perry is driving at  
12 is where is the other \$413 million of the Quebec  
13 shares and deposits?

14 MR. GLEN: I think Dr. Polner could answer  
15 that.

16 DR. POLNER: I wish you wouldn't pull this out.  
17 We have two year books that Canadian Credit use, one  
18 turned out by the Credit Union National Association which  
19 you are reading from and the other is turned out by the  
20 Canadian Department of Agriculture. On Page 10 they have  
21 a breakout by three categories of Credit Unions in Canada:  
22 The Province of Quebec, other provinces and Canada. If  
23 you look down the list as far as the Province of  
24 Quebec is concerned as of their method of obtaining  
25 statistics in 1962 there were \$156 million in so-called  
26 cash in the province. In all of Canada there  
27 were \$214 million. That left \$58 million in the other  
28 provinces. In investments again for all of Canada, \$347  
29 million dollars of which \$267 million are in the Province  
30 of Quebec. You have other provinces at about \$80 million





1 dollars, and I think that one of the things these statistics  
2 don't show and this you could bring out is that there are  
3 other Caisse Populaires in other provinces that try to  
4 follow the pattern set by the Caisse Populaires in the  
5 Province of Quebec. For instance in this town of Ottawa  
6 there is the Ottawa Federation which is a group of Caisse  
7 Populaires in the Province of Ontario. Therefore this  
8 would probably explain the majority of the funds that  
9 Mr. Perry has requested information on.

10 MR. STEWART: It is rather interesting that  
11 the cash investments in the Province of Quebec, the figures  
12 you have just given total \$423 million (which is  
13 a little bit more than the difference between the shares  
14 and deposits on the one hand and the loans outstanding  
15 to members on the other which appears on Page 27 of your  
16 book. That figure was \$214 million. ~~Can I ask~~ Mr. Polner,  
17 do you know what type of investment this \$267 million  
18 is in?

19 DR. POLNER: No, sir. I don't know where the  
20 investments of the Caisse Populaires of the Province of  
21 Quebec are kept. I am sure that this data are public  
22 record, however.

23 COMMISSIONER PERRY: The point in this phenomena  
24 is largely concentrated in Quebec and that money is held  
25 in three or four obvious ways in which money must be  
26 held, cash, investments, bonds, shares, bank deposits.  
27 Can I take as a statement of fact that the Credit Union  
28 Movement in the rest of Canada has a much lower propor-  
29 tion of unused resources than in Quebec?

30 DR. POLNER: If you go...





1 COMMISSIONER PERRY: One has to be very careful.  
2 I was referring to deposits of assets. Chartered banks  
3 regard them as liabilities. I am picking my words fairly  
4 carefully.

5 DR. POLNER: Let me take assets in  
6 Alberta, \$41 million, loans outstanding are \$32 million;  
7 in British Columbia, assets of over \$113 million, loans  
8 outstanding of \$92 million, really nine-tenths in loans  
9 outstanding to members. In Manitoba roughly five-sixths  
10 are outstanding to the members. In New Brunswick roughly  
11 four fifths, 15 to 20. In Newfoundland there is an  
12 error in the list. These are the data provided to me by  
13 the Registrar there. I simply took his data. This is  
14 insignificant. In Nova Scotia again as far as Credit  
15 Unions are concerned it is roughly more than four-fifths  
16 are out to the members. In Ontario again five-sixths  
17 are out to the members. P.E.I. roughly 85, 90 per cent  
18 is out to the members.

19 THE CHAIRMAN: It would sound generally as though  
20 the range is 80 to 90 outside of Quebec.

21 DR. POLNER: Based on this data yes.

22 THE CHAIRMAN: And in Quebec, two-thirds, is  
23 it?

24 DR. POLNER: 95.

25 THE CHAIRMAN: About half?

26 DR. POLNER: About half, five-ninths, about  
27 half.

28 MR. STEWART: Well now, gentlemen, I would like  
29 to discuss with you what happens to the income which  
30 comes into your Credit Unions, and first I take it that





1 the income is applied in the payment of what other expenses  
2 the Credit Union may have; is that correct?

3 MR. GLEN: Yes, generally.

4 MR. STEWART: And then you apply a certain pro-  
5 portion of any balance towards the Statutory Reserves?

6 MR. GLEN: Yes.

7 MR. STEWART: Is it generally the case that the  
8 limit of a Statutory Reserve, what I think may be called  
9 a guarantee fund, is 10 per cent of the assets.

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1 MR. INGRAM: No. The Provincial Statutes re-  
2 quire 20 per cent of the net earnings be set aside each  
3 year as a statutory Reserve until such time as it reaches  
4 10 per cent of the share capital deposited in the Credit  
5 Union.

6 MR. STEWART: Now then in addition to that  
7 particular reserve, is there also what is called an ed-  
8 ucational reserve?

9 MR. INGRAM: There is provision for a reserve  
10 which we call an educational reserve under most statutes.  
11 This is generally limited to 5 per cent of the net savings.

12 MR. STEWART: But the amount that can be app-  
13 propriated to the reserve in any year, there is no ceiling  
14 on that by statute?

15 MR. INGRAM: It's generally limited to 5 per  
16 cent.

17 MR. STEWART: Five per cent of the earnings or  
18 5 per cent of the assets?

19 MR. INGRAM: Five per cent of the net savings.

20 MR. STEWART: Net savings for the year?

21 MR. INGRAM: Yes.

22 MR. STEWART: Is there any ceiling on the total  
23 amount of that particular reserve?

24 MR. INGRAM: No. General practice it is used  
25 upon an annual basis by the Credit Union.

26 MR. STEWART: In any event, on Page 17 of this  
27 submission, in Paragraph 57 you say that earnings are  
28 returned to the members at the end of each fiscal year  
29 after the statutory and other reserves are set aside.  
30 Now what is the significance of the words "other reserves"?





1 What kind of reserves are they?

2 MR. INGRAM: Well this would be referring to,  
3 almost exclusively, this education reserve we talked about  
4 and there may be other special reserves of a minor nature.  
5 For example, the Credit Union may wish to set aside a  
6 reserve on an annual basis to build a building to house  
7 their operations, for example. There may be other types  
8 of contingencies that they wish to provide for. This  
9 would be another example of that kind of reserve.

10 MR. STEWART: Now I think you said that as  
11 far as the guarantee fund is concerned, you apply 20 per  
12 cent of earnings to that reserve until the 10 per cent  
13 ceiling is reached. When you are computing the earnings  
14 for that purpose, do you make any deduction of the in-  
15 terest which is payable on deposits?

16 MR. INGRAM: In some cases the interest on  
17 deposits would be part of the expense of an operation of  
18 the Credit Union for that year, yes.

19 MR. STEWART: You say "in some cases"?

20 MR. INGRAM: In some cases they have been treated  
21 as an expense of operation. In other cases they would  
22 be treated as a distribution of net savings at the annual  
23 meeting of the Credit Union.

24 MR. STEWART: Now how do you distinguish between  
25 the two situations? Why is it one way in some cases  
26 and the other way in others?

27 MR. INGRAM: This would normally be by by-law,  
28 whereby the authority of the Board of Directors of the  
29 Credit Union -- which way they wanted to treat their net  
30 savings at the end of each year.





1 MR. STEWART: In a Union where interest of this  
2 sort was deductible in computing earnings for the purpose  
3 of allocation to reserve, would there be a tendency to  
4 encourage deposits as opposed to payments into share  
5 accounts?

6 MR. INGRAM: I wouldn't think there is any  
7 general tendency or trend towards that direction, no.

8 MR. STEWART: Now let us suppose that we have  
9 paid or appropriated for the expense of a particular  
10 Credit Union in whatever Statute and other reserve or app-  
11 propriations from which the reserves may have been made,  
12 and that there is a balance remaining. What happens to  
13 that balance?

14 MR. INGRAM: This balance would be left as  
15 a surplus, or as a reserve account to be used or to be  
16 included in the earnings of the succeeding year; to be  
17 distributed or allocated at the wishes of the general  
18 membership at their next annual meeting.

19 MR. STEWART: Then the members at the next  
20 annual meeting have some kind of a discretion in this  
21 connection have they?

22 MR. INGRAM: Yes.

23 MR. STEWART: That is, they may distribute  
24 the whole of that net amount or they may distribute  
25 only part of it?

26 MR. INGRAM: That is at the discretion of the  
27 members themselves, yes.

28 MR. STEWART: Let's take the part that they  
29 decide to distribute. Who do they take into account as  
30 possible distributees and how do they divide it up?





1 MR. INGRAM: This is, in a sense, partly by  
2 rule of thumb. There are two groups that would normally  
3 share in the distribution of the savings. They may be the  
4 same people, and generally are, at least many of them are  
5 and this is the saver and the borrower. The saver, we  
6 feel is entitled to a fair return on his shares or deposits.  
7 The borrower, in most instances, not all, but in most,  
8 is entitled to a share or part of the distribution of  
9 those same savings on what we call an interest rebate  
10 or capital refund. This is really a reduction in the  
11 amount of interest that he has paid on a loan that he  
12 has had outstanding during the previous year.

13 MR. STEWART: Now what are the priorities here?  
14 Who comes first? The borrower, as regards his interest  
15 rebate, or the saver as regards the return on his  
16 savings?

17 MR. INGRAM: The saver.

18 MR. STEWART: He comes first?

19 MR. INGRAM: He comes first.

20 MR. STEWART: So that you decide what you will  
21 pay the saver, and then the rest is applied in interest  
22 rebate?

23 MR. INGRAM: Yes.

24 MR. STEWART: Now when we are talking about  
25 the saver here, are we talking about share accounts or  
26 deposit accounts or both?

27 MR. INGRAM: Both.

28 MR. STEWART: So that at that point, that is  
29 at the annual meeting, you really determine the amount of  
30 dividend that will be paid on shares, and you also de-





1 termine, if you like, the final rate of interest which  
2 will be paid on loans by the Credit Union for the previous  
3 year?

4 MR. INGRAM: Yes, in practice this is right.

5 THE CHAIRMAN: When you come to the end of this  
6 point, Mr. Stewart, we will break.

7 MR. STEWART: Thank you Mr. Chairman. I will  
8 just be a moment or two.

9 Now is the decision as to the amount allocated  
10 to the saver on the one hand, and the amount allocated to  
11 the borrower on the other, influenced by the demand or  
12 lack of demand for loans from the Credit Union? Before  
13 you answer that Mr. Ingram, I think it is only fair to  
14 tell you that I asked this same question of the Ontario  
15 Credit Union League people when they were appearing before  
16 the Commission earlier on and Mr. Burton of the Ontario  
17 Credit Union League said this, and I am reading from  
18 Page 1673 of the transcript: "It may well be if a Credit  
19 Union does not have sufficient borrowers, in other words  
20 it has surplus money, then it may consider an increased  
21 rebate on loan interest to encourage further borrowing,  
22 or if it is the other way around, if they have no trouble  
23 getting money out and can't get enough money in, they may  
24 say 'let's give a higher dividend this year and keep  
25 the rebate down' and try and encourage savers."

26 Now would this be an intellectual process that  
27 would go on among the directors of Credit Unions gen-  
28 erally do you think?

29 MR. INGRAM: I think this, that Mr. Burton was  
30 probably quite correct in his analysis of the way that





1 some of our Boards of Directors think and operate with  
2 respect to this particular problem. I would say this too,  
3 that in a general way we have always advocated that the  
4 movement is simply a mutual self-help kind of organization  
5 where we pool our dollars and cents and make them available  
6 for provident and productive loan purposes, and that  
7 the prime motivation behind all of this, on the part of  
8 members, is not one of getting a substantial return on  
9 his savings, or of getting a very low rate of interest  
10 on any loans that he may have.

11 I would think, though, probably Mr. Burton  
12 is quite correct in his analysis of some of our individual  
13 Credit Unions. They probably do think this way. I think  
14 in a general sense this is probably not so.

15 MR. STEWART: I am not sure that I altogether  
16 follow you when you say the prime purpose is not to get  
17 a return on your savings and it is also not to get low-  
18 cost loans. What is his prime purpose?

19 MR. INGRAM: When I said that, I perhaps should  
20 have qualified a little bit and said his prime concern  
21 should be, his motivating factor is to pool his savings,  
22 along with everybody elses, within the common bond of  
23 association, to make money available to himself, and  
24 this is probably our prime reason for being, to eliminate  
25 usury.

26 MR. STEWART: Well now when these amounts are  
27 allocated to the savers, on the one hand, and to the  
28 borrowers on the other, are the amounts in question paid  
29 in cash or are they simply credited to the appropriate  
30 accounts of the member?





1 MR. INGRAM: The general practice is to simply  
2 credit them to the share or deposit accounts of the member.

3 MR. STEWART: Now I am interested in your state-  
4 ment that the person who has a deposit account may get  
5 additional interest because, and I should have mentioned  
6 this earlier, but my note on the point has just been  
7 reached now, I am looking now at Page 1672 of the trans-  
8 cript of the hearing of the Ontario Credit Union League  
9 on May 21st of this year, and I asked this question of  
10 Mr. Hallinan, who was one of the representatives of the  
11 League present:

12 "Yes, but I may not have made my question  
13 plain. Let us suppose that the Board of  
14 one of your Credit Unions is dealing now  
15 with the results of operations for 1962,  
16 and it finds it has certain net income  
17 available and it sets aside this amount for  
18 the guarantee fund. Then it will determine  
19 a rate of dividend for 1962. It may  
20 determine a rebate on loan interest for  
21 1962, but does it also consider its own  
22 sort of retroactive increase in interest  
23 on deposits for 1962?"

24 Mr. Hallinan said:

25 "It could, but that is not generally  
26 so. Usually the interest on deposits  
27 is determined early in the year."

28 Now I take it that if Mr. Hallinan is  
29 correctly describing the Ontario practice, then the On-  
30 tario practice may differ because you have indicated that





1 there is some kind of a retroactive determination of  
2 interest on loans to the Credit Union for the  
3 year?

4 MR. INGRAM: Now we are talking about interest  
5 rebates to borrowers?

2 6 MR. STEWART: No, we are talking about the  
7 saver.

8 MR. INGRAM: Interest on deposits?

9 MR. STEWART: Yes.

10 MR. INGRAM: Well this varies from one province  
11 to another, and from one Credit Union to another. In  
12 many cases Credit Unions that do have deposit accounts pre-  
13 determine the interest rate. This is true. In other  
14 cases this is not determined until the annual meeting.

15 THE CHAIRMAN: You are not distinguishing between  
16 deposit accounts and shares? I don't think you are  
17 Mr. Stewart?

18 MR. STEWART: Mr. Chairman, as I understood  
19 what Mr. Ingram said earlier, the essential distinction  
20 as between the saver and the borrower, as I understood  
21 him to say, is that he uses saver here in relation to the  
22 member who may have -- he will have a share account and  
23 may also have a deposit account and on the amount in the  
24 share account, he gets a dividend that is determined  
25 at the annual meeting in respect to the operation for  
26 the previous year.

27 I also understood him to say where he has a  
28 deposit account, then at the 1963 annual meeting, for  
29 example, depending on the result of operations, they  
30 may decide that he will get a part or an additional amount





1 of interest on the amount in his deposit account for the  
2 previous year. Have I stated it correctly, or summarized  
3 it correctly?

4 MR. INGRAM: In some cases this is true. In  
5 many other cases this is not so because his deposit in-  
6 terest rate is on a prospective basis. In other words,  
7 what he may expect to earn or receive in the following  
8 year.

9 MR. STEWART: But let us suppose that at the 1962  
10 annual meeting there is a decision that three per cent  
11 interest will be paid on deposits for the current year,  
12 1962.

13 MR. INGRAM: This is for the coming year?

14 MR. STEWART: If you have your annual meeting  
15 in May, well I take it that you may come to such a decision  
16 for the year 1962?

17 MR. INGRAM: Yes.

18 MR. STEWART: Now let us suppose that 1962, for  
19 this particular Credit Union, turns out to be a remarkably  
20 good year and when the smoke clears away early in 1963  
21 it appears that there is going to be an amount available  
22 for distribution to members. You say that at the 1963  
23 annual meeting, the amount of 3 per cent on deposits  
24 may be increased retroactively for 1962?

25 MR. INGRAM: That is possible. In most cases  
26 this would not be so.

27 MR. STEWART: Now I just have one other question  
28 to ask on this particular subject of what happens to  
29 your surplus. If you would look at Page 27 of this year  
30 book again, which deals with the position in Canada, to-





wards the right-hand side of the page there is a heading  
"Credit Unions Making Interest Refunds", and then there  
are two sub-headings. One is the number and the other  
is the modal rate. Now looking at them province by pro-  
vince, there are no figures available as regards Alberta,  
but in British Columbia 158 unions out of 317, which is  
about half, made interest refunds. In Manitoba 102  
out of 252, which is about 40 per cent.

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PAGE 5274 FOLLOWS





1 MR. STEWART: No figures for New Brunswick.

2 The figure for Newfoundland is obviously wrong because  
3 there are more Credit Unions making refunds than there  
4 are Credit Unions.

5 MR. GLEN: 15 is the figure that should be  
6 there.

7 DR. POLNER: That is a typographical error. I  
8 regret it.

9 MR. STEWART: That is about one-quarter. In  
10 Nova Scotia it is approximately one-third. No figures  
11 for Ontario or P.E.I. In Quebec it is 114 out of 1522  
12 which is less than 10 per cent.

13 MR. GLEN: That is clarified there.

14 MR. STEWART: This applies to the Quebec Credit  
15 Union Members only which would be a small proportion of  
16 the 1522. In Saskatchewan there are only 284. This would  
17 appear to indicate that on balance a comparatively small  
18 portion, certainly less than half of the Credit Unions  
19 do make interest rebates or did in the year 1962.

20 MR. GLEN: I think Dr. Polner could answer.

21 DR. POLNER: I am in charge of turning out this  
22 yearbook and I would like to explain some problems. In  
23 Newfoundland it is a typographical error. The Province  
24 of Alberta doesn't collect any data on interest refunds.  
25 We obtained all our data from the Government. The same  
26 thing goes for the Province of New Brunswick except that  
27 there are some data available later after this book is  
28 turned out. I also wondered about some questions. We have  
29 problems of space. What I have been doing is sticking  
30 to the modal rate. We have this standard set for the





1 United States and Canada based on data we are able to  
2 obtain and based on the data -- I will read you this  
3 when you do not use the modal rates which is the most  
4 common, but you use median the tendency for Canadian Credit  
5 Unions, for whatever reason they make this decision is  
6 to return a higher percentage in the form of interest  
7 rebates to the borrowers than do the United States Credit  
8 Unions. The reason I work it out by asset class -- let me  
9 give you an example, if you have an asset class, 50  
10 thousand dollars to 100 thousand dollars in a province  
11 with the modal rate of 12 per cent, for asset class  
12 500 thousand dollars to 700 thousand dollars it is  
13 15 per cent with the actual median. Here it is higher  
14 for the modal rates.

15 One of the facets of turning out a year book  
16 is to know what do you put in and what do you keep out.  
17 I think the modal rates would be easier to understand,  
18 the most common rate. We use it for dividends. If  
19 we start using most common for dividends and median  
20 for other forms of things, I think it would be more  
21 trouble than here.

22 This study is available and I would be very  
23 happy to provide it to the Committee. If I may have one  
24 moment to read this:

25 "These data on interest refunds are  
26 paid by Credit Unions in CUNA Districts  
27 1 and 2 in Canada. 634 Credit Unions  
28 provided information as to the rate that  
29 they paid in the form of interest re-  
30 funds. Usually the Credit Unions by





1           asset classes in Canada pay a higher  
2           median rate of interest refunds.

3           One would think based on these data  
4           and the data last month on dividends, that  
5           the Credit Unions in Canada are providing  
6           greater return to the borrower in the form  
7           of interest refunds while the Credit Unions  
8           in the United States seem to have a  
9           tendency to offer greater incentives to  
10          the saver. The median interest refund  
11          in Canada is also 10 per cent." The  
12          question arises how large a sample do you  
13          need. We are taking it across Canada  
14          by provinces. I think this data, when  
15          you get Alberta figures, when you get New  
16          Brunswick will generally be correct. There  
17          is a tendency at the end of 1962 for the  
18          Credit Unions across Canada to give a  
19          higher median return in the form of interest  
20          refunds to the borrower.

21                 THE CHAIRMAN: Forgetting the statistics  
22          for a moment, the rate of interest refunds, means, I  
23          think, that 10 per cent of the interest charged, where  
24          it shows 10 per cent on the sheet as rebates.

25                 DR. POLNER: Yes, sir.

26                 MR. STEWART: Dr. Polner, could I come back to  
27          my earlier question. It is quite apparent from these  
28          figures that a comparatively small percentage of the Credit  
29          Unions dealt with in the provinces which your table deals  
30          with make any rebate at all.





1 DR. POLNER: Sir, could I explain one of my  
2 problems. We have a limited number of questions that  
3 we may ask of Credit Unions. We don't ask a question  
4 which in the United States I have asked because I have  
5 other methods of obtaining this information. One of the  
6 questions we have asked is what would you charge your  
7 members. That is we have a maximum of 1 per cent. When  
8 we were making the study we found that the Credit Unions  
9 has alternatives, they could give you the interest refund  
10 or they could charge lower than 1 per cent on the unpaid  
11 balance to the borrower. We have found  
12 we were limited in this again, in the problem of looking  
13 at them, there is a choice that can be made. You can  
14 make an interest rebate by simply cutting the rate  
15 originally. This has meant that in, at least, one state,  
16 I think made a credit allowance of \$200 million  
17 worth of assets, therefore we have one question of  
18 interest rates which I have data on. We don't have too  
19 much information on how the rate is cut. In my study  
20 which is available for this Commission we have found there  
21 is a tendency for cutting rates from the maximum of 100  
22 per cent which in all essence statistically, if I may use  
23 that term is an interest rebate.

24 THE CHAIRMAN: Could we break now?

25 MR. STEWART: Would you be prepared to file  
26 the study you referred to as an Exhibit?

27 DR. POLNER: Yes sir, it is in Madison but I  
28 will send it by airmail tomorrow to Mr. Ingram who will  
29 deliver it through the proper channels.

30 MR. STEWART: You also have a folder you





1 are referring to here. Have you got an extra copy of  
2 that?

3 DR. POLNER: Yes, I could give you this.

4 THE SECRETARY: Exhibit 257.

5 MR. STEWART: RES/CC Statistical Bulletin.

6 What is the number?

7 THE SECRETARY: 257.

8 ---EXHIBIT NO. 257: RES/CC Statistical  
9 Bulletin

10 THE CHAIRMAN: We will break for ten minutes.

11 ---Short recess.

12 ---Upon resuming.

13

14 THE CHAIRMAN: Mr. Stewart, I think we are  
15 ready to continue.

16 MR. STEWART: Thank you, Mr. Chairman. Gentlemen

17 I would like to go to this 1963 year book again. It is  
18 on file with the Commission, of course, but I think that  
19 for the purposes of the record it might be worthwhile to  
20 draw attention to some of the figures which this contains.  
21 First I would like to look in the first instance at  
22 Page 47 and to read Page 47 to some extent in conjunction  
23 with Page 1. I have chosen to compare for present pur-  
24 poses the years 1946 and 1962. I find that as far as  
25 the number of Unions is concerned in 1946 there were 2422  
26 in Canada. In 1961 there were 4592 and in 1962, from  
27 Page 1 there were 4638 so that during that period of  
28 16 years, Mr. Glen, the number of Credit Unions in Canada  
29 has come close to doubling; is that correct?

30 MR. GLEN: Yes, the figures indicate this, sir.





1 MR. STEWART: If we look at the next column  
2 on Page 47 which is the number of members in 1946, there  
3 were 688 thousand in Canada and in 1961 there were 2  
4 million 751 thousand and in 1962 there were 2 million  
5 884 thousand, so again in the 16 year period there has  
6 been a considerable increase. It appears to amount to  
7 about a four-fold increase during the 16 years; is  
8 that correct?

9 MR. GLEN: Yes.

10 MR. STEWART: If we look at savings in 1946  
11 they amount to \$178 million dollars, in 1961, 1 million  
12 387 thousand dollars and in 1962 \$1 million 531 thousand  
13 dollars which means that at the end of the 16 years they  
14 were approximately nine times what they were  
15 beginning. Do you agree with that?

16 MR. GLEN: Yes.

17 MR. STEWART: Then if we look at the assets  
18 in 1946 they appear to have been \$187 million. In 1961  
19 they were \$1,509 million and in 1962 \$1,691 million

20 which again would be approximately nine times  
21 what it was at the beginning of the period. Do you agree  
22 with that as well?

23 MR. GLEN: Yes, sir.

24 MR. STEWART: And then if I make a rough  
25 calculation of savings per member proceedings from page  
26 47, dividing the number of members into the amount of  
27 savings it would appear in 1946 the savings amounted to  
28 about \$250.00 per member. In 1961, on the other hand,  
29 it amounted to not far short of \$500.000 per member and  
30 in 1962 it would be something in excess of \$500.00 per





1 member. Will you agree with those figures?

2 MR. GLEN: Yes.

3 MR. STEWART: If we consider the number of  
4 members per Union on the average then in 1946 there were  
5 2422 Unions and 668 thousand members so that the members  
6 per union would be somewhat less than 300 on the average.  
7 In 1961 it would be almost 600 per Union and in 1962 it  
8 would exceed 600 per Union.

9 MR. GLEN: Yes, sir.

10 MR. STEWART: So that during the period the size  
11 of the average Union as far as number of members is con-  
12 cerned has increased very materially.

13 MR. GLEN: Yes, sir.

14 MR. STEWART: Well then, if we look at Page  
15 48 of this Year Book we find certain figures with regard  
16 to personal income and personal disposable income in  
17 Canada, net savings and so on. I beg your pardon I  
18 am looking at Page 48. We find on Page 48 particulars  
19 with regard to instalment credit in Canada and I observe  
20 in 1955 the Credit Union proportion of the total instal-  
21 ment credit in Canada was 7.8 per cent, and that in  
22 1961 it had grown to 13.4 per cent; is that correct?

23 MR. GLEN: Correct.

24 MR. STEWART: So that while the total amount  
25 of instalment credit in Canada increased very materially  
26 during those years it seems to follow that the Credit  
27 Union percentage of the total also increased very  
28 materially.

29 MR. GLEN: It does appear that way.

30 MR. STEWART: Then, if we look at Page 49 we





1 find certain information with regard to personal savings,  
2 as I was suggesting earlier, and if I go back to Page 46  
3 again I find in the column headed total savings in Credit  
4 Unions the figure of \$178.7 million and that in the  
5 column to the left of that the total net savings  
6 excluding farm inventory changes, \$878 million, so  
7 that the Credit Union proportion of the total net  
8 savings was about one-fifth. Is that correct?

9 -----





1 MR. GLEN: Yes.

2 MR. STEWART: And then if you go up to 1962,  
3 we find that the Credit Union savings were \$1,531 million  
4 dollars and that the total net savings, excluding farm  
5 inventory changes, were \$2,182 million dollars so that  
6 the Credit Union's proportion of total savings is now  
7 approximately 70 per cent. Is that correct?

8 MR. GLEN: I will have to refer this one to  
9 Walter. It depends on the relationship that is being  
10 used.

11 DR. POLNER: As far as your figures are con-  
12 cerned for 1962, yes sir. These are based on the Bank  
13 of Canada estimates, give or take two or three per cent.

14 MR. STEWART: And this would indicate that  
15 in 1962 a very high proportion of Canadian personal  
16 net savings is through Credit Unions?

17 THE CHAIRMAN: I think you are looking at the  
18 figures incorrectly there. The figures in the first  
19 column, which is 2182, represents the accumulation for  
20 that year only. That is the total net savings for  
21 1962. Whereas, the one and a half billion dollars for  
22 the savings of the Credit Union is the total amount of  
23 accumulated savings in the Credit Union, which figure  
24 we met earlier in the day.

25 MR. GLEN: That is what was confusing me.

26 THE CHAIRMAN: You don't relate the one and a  
27 half billion to the two one eight two.

28 MR. STEWART: I beg your pardon. These questions  
29 that I have just asked about Page 49 are really off  
30 the point. I was absolutely astonished at the inference





1 I drew that as large a portion of personal savings was  
2 in this particular type of organization, but I see in  
3 that column headed total savings in Credit Unions you  
4 have got accumulative total. Whereas, in the column to  
5 the left you have got a series of annual items. Is  
6 that correct?

7 DR. POLNER: Yes, that is correct.

8 MR. INGRAM: We have provided those figures,  
9 Mr. Stewart, on the savings in our paragraph 32 which  
10 compares savings in Credit Unions as compared to those  
11 in the chartered banks in the last ten year period.

12 THE CHAIRMAN: If we went to the next column  
13 I think we would then be able to say that of the two  
14 billion, one hundred and eighty-two, one hundred and  
15 forty-three million went into Credit Unions. I am not  
16 too sure that one can actually say that, but I rather  
17 think so.

18 MR. STEWART: Is that not the inference to be  
19 drawn, Mr. Glen? The second column from the right on  
20 the left hand side which shows the annual increase in  
21 Credit Union savings?

22 DR. POLNER: Yes sir, that is correct.

23 MR. STEWART: And the right-hand column shows  
24 the percentage? The column immediately to the left of  
25 it is the total of net Canadian savings?

26 DR. POLNER: Yes. What we earned in the year  
27 1962, the Credit Union obtained 6.6 per cent of the total  
28 net savings excluding farm inventory change, as stated  
29 by the Bank of Canada.

30 THE CHAIRMAN: 6.6 is the result of dividing





1 143.9 by 2182 I would imagine?

2 DR. POLNER: That is right sir.

3 MR. STEWART: Then if we --

4 THE CHAIRMAN: Just a minute Mr. Stewart.

5 DR. POLNER: I think one of the questions you  
6 asked, or were asking on Page 10 where personal savings  
7 accounts are kept in financial institutions, this would  
8 give you the fact that 68.2 per cent of personal savings  
9 accounts are held by chartered banks in Canada. Again  
10 using the Bank of Canada data, which are my sources,  
11 these data are from either the Bank of Canada or from the  
12 Dominion Statistics Bureau.

13 MR. STEWART: This chart shows that 13.3 per  
14 cent of personal savings for the year 1962 are held by  
15 Credit Unions?

16 DR. POLNER: That is right sir.

17 COMMISSIONER PERRY: For the banks you are using  
18 the savings deposits are you?

19 DR. POLNER: Before I made out this chart,  
20 I checked with the Bank of Canada. That is one of the  
21 reasons you have excluding farm inventory. This evidently  
22 is the method of obtaining net savings in Canada and,  
23 therefore, without knowing how it was set up, this was  
24 set up according to their advice to me and as you will  
25 notice in the United States, we don't have that excluding  
26 farm inventory because we have another system of  
27 obtaining net savings.

28 This is the Bank of Canada System and we were  
29 following it because I believe that we should have  
30 comparable data.





1 MR. STEWART: Well gentlemen I think that you  
2 would probably be prepared to agree that when the Credit  
3 Union Movement in Canada now has these substantial assets  
4 and is in a position it appears to be with regard to con-  
5 sumer loans, and so on, when it holds the percentage of  
6 personal savings that it appears to hold, the movement  
7 has come to play a very significant role in the economy  
8 of Canada as a whole?

9 MR. GLEN: My answer to that sir would be I  
10 think it has come to play quite an important part in the  
11 lives of individual Canadians. As regards our role in  
12 the economy of Canada as a whole, this is a very difficult  
13 question for me to answer because our Credit Unions are  
14 autonomous units and they are concerned with the  
15 welfare of their members. I think this concern for  
16 the welfare has accounted for some of the figures that  
17 we have related to you in the last few minutes.

18 MR. STEWART: If we consider that the number  
19 of members alone are, at the end of 1962, apparently  
20 2, million 884 thousand, this is a pretty significant  
21 proportion of the population of Canada is it not?

22 MR. INGRAM: Yes. I think this has come about  
23 because of the zeal largely of our volunteer people who  
24 believe that the Credit Union is a pretty wonderful  
25 organization in terms of human relationship and they  
26 are certainly not backward in explaining this relation-  
27 ship to other people and encouraging them to participate.

28 We have a philosophy that we are very  
29 proud of sir.

30 MR. STEWART: And you hope, I take it, that





1 this growth will continue?

2 MR. GLEN: I hope the philosophical growth will  
3 continue. I realize that there probably comes a point  
4 when philosophy ends off and other considerations begin.

5 MR. SHIPE: I think, if you look at Page 49,  
6 you will see the percentage of savings rate of growth  
7 in the Credit Union has gone down considerably. Going  
8 back there to 1958, 8.6 down to 6.6.

9 I can also point out to you that the number of  
10 Credit Unions which have been organized each year in  
11 Canada is also showing a decrease. What I would like  
12 to point out or conclude from that is this, and this  
13 ties in with what Mr. Glen has said about the motivation  
14 behind the Credit Union idea, we are not primarily an  
15 economic organization. The Credit Union, and this has  
16 been said by Alphonse Desjardins, who is the creator  
17 of Credit Unions in Canada and North America, the Credit  
18 Union is to band people together for provident and pro-  
19 ductive purposes and to eliminate usury. To bring  
20 credit to people at a reasonable rate of interest. To  
21 make it easy and convenient for them to save and help  
22 them to learn more about the democratic control and  
23 management of their own money. What we have tried to  
24 do in the Credit Union movement, we have tried to set  
25 a yardstick or establish a base and we have tried to  
26 encourage other organizations to come into being; to  
27 provide savings and credit service to people so there  
28 would be created a facility to help to develop the kind  
29 of economic standard of living we like to have in this  
30 world and the Credit Union, as it grows, other organiza-





1 tions are beginning to realize that the average man is  
2 honest and will repay his debts if he is given half a  
3 chance to do so.

4 We pioneered in consumer credit on this contin-  
5 ent and as a result of that, other types of financial  
6 organizations have come into being. The banks, for  
7 example, are more and more going into the consumer credit  
8 field. The Department stores are making consumer  
9 credit available to people. The S. & L. Savings and  
10 Loan in the United States are talking about going into  
11 the granting of consumer credit to people. The Credit  
12 Union movement looks upon this as good because it will  
13 make it possible for the individual to have a source of  
14 credit at a reasonable rate of interest and we believe  
15 that this will help him to enjoy a better standard of  
16 living and it will also make possible for there to be  
17 more jobs and more production and this will make it  
18 possible for us all to have a better and a more satis-  
19 factory life.

20 Now in that area too, we are engaged in the  
21 practice or the programme of trying to help people learn  
22 what is the true and honest rate of interest and what  
23 is a reasonable rate of interest for credit. We supported  
24 legislation to bring about a method whereby people could  
25 accurately determine what the cost of interest is.  
26 We supported this both in the Commons and in the  
27 Congress and spent money and time and effort and engaged  
28 experts to produce various studies so that Joe and Mary  
29 Doaks could determine what the cost of credit is so they  
30 can compare what it cost when they finance an automobile





1 or when they get a loan from this organization or that  
2 organization. They can determine what is the best rate  
3 from their standpoint.

4 With the permission of the Commission, we  
5 would like to present one of these to each member of the  
6 Commission. We also engaged in studies which we have  
7 been supporting, one we would like to really talk about  
8 is the Credit Union Member by Income Groups, so we can  
9 determine what element of the Credit Union population are gett  
10 this kind of service, and we are looking more and more  
11 to the lower income groups, the depressed areas of the  
12 economy and we are trying to find out why the lower income  
13 group in an industrial group, or the lower income in  
14 a community are not getting the service of Credit  
15 Unions, because they have no source of credit except  
16 the high rates money lender, commonly referred to as  
17 a loan shark, and I would like to leave this study  
18 financed by the Health, Education and Welfare Department  
19 and it has used the services of an outstanding Canadian,  
20 Dr. Croteau who now is the economist in the University of  
21 Notre Dame and these figures were based on studies  
22 conducted by Dr. John P. Croteau and the use of the  
23 members of Credit Unions and non Credit Union members  
24 and members of an employee group in North Indiana.

25 This brings out some very revealing background.  
26 We would like to leave this with you.

27 What I am trying to say is that the Credit  
28 Union is not primarily an economic organization and we  
29 do not measure our growth in the conventional sense  
30 of the word. We are very interested in how many people





1 are served through the Credit Unions and these yardsticks  
2 are helpful, and they are practical and they are standard  
3 to account for how many people are we serving and the  
4 Credit Union may seem to have a lot of money, but actually  
5 as compared to the amount of money in our total economic  
6 picture, it is a rather small amount but we feel that  
7 the amount of good it does in helping people to eliminate  
8 worry problems, and to eliminate some of the problems  
9 that cause the breakup of families and are causing dis-  
10 tress and unhappiness and perhaps discharge from their  
11 employment are actually alleviated by the workings of  
12 the Credit Union.

13 I hope I haven't taken too much of your time  
14 but I want to stress we are not primarily -- it has often  
15 been said we are 51 per cent financial and 49 per cent  
16 fraternal. I think it has got that way -- we have got  
17 to accurately portray that true picture of what a  
18 Credit Union is.

19 MR. STEWART: Mr. Shipe, I think what you have  
20 said is very helpful to us and I think from that, and  
21 from what you have said in the submission and what the  
22 Ontario Credit Union and the Caisse Populaire said in  
23 their submission, it will be possible for the Commission-  
24 ers to get the real flavour of this movement which I  
25 realize is a very important aspect of it.

26 I would like to now deal with what you have  
27 described as the 51 per cent, the financial side of  
28 it because when it comes down to it, from what you have  
29 told us this morning it seems to me that basically  
30 your Credit Unions are in this position: that they are





1 getting funds in and remember I am looking now at the  
2 business or financial side -- they are acquiring funds  
3 at one rate of return. They are lending those funds out,  
4 admittedly to their own members, or basically to their  
5 own members, at a higher rate of return so that it seems  
6 to me that their activity is basically similar to the  
7 activity of other companies which are engaged in the  
8 business of lending money. Those companies, after all,  
9 get capital in, as the Credit Union does and they lend  
10 it out. They hope to lend it out at a higher rate  
11 than they pay to the people to make the funds available  
12 to them.

13 Now if you look at it wholly from the financial  
14 point of view, or the business point of view, and I  
15 am not suggesting this is the only point of view, but  
16 try to concentrate for the moment on that financial  
17 or business point of view, is there any essential dis-  
18 tinction between the activities ~~that~~ the Credit Union  
19 carries on and the activities these other financial  
20 concerns carry on and if there is a distinction, what  
21 is it?

22 MR. SHIPE: Yes. That is a good question  
23 Mr. Stewart and I think there is a very clear-cut and  
24 essential difference. The kind of financial organization  
25 you refer to is a very proper part of our economy.  
26 It is a profit-making organization, designed to pull  
27 together the investments from the group which will then  
28 develop a business organization to make loans at a  
29 profit so there will be a return to the stockholder.  
30 Very proper and very legitimate, and very good and we





1 hope there will be more of them.

2           The Credit Union is different in this respect:  
3 it is a cooperative or mutual organization primarily.  
4 Most of them operate in this manner because of the mostly  
5 small organizations where there is no compensation to  
6 any of the officials, with the exception of maybe the  
7 Treasurer and the Manager who may receive an honorarium.  
8 This is a smaller group. The larger one may have  
9 employees, but even where they have employees the  
10 Directors, the Committee Members and the Supervisory  
11 people, and the people that work on the educational  
12 or deposit committees do this as a public service, much  
13 like the way you would participate in your church activ-  
14 ities or fraternal activities or your professional organ-  
15 izations or as a good citizen in your various civic  
16 organizations, so the essential difference is this  
17 aspect of contribution of time, talent, and effort on  
18 the part of individuals who are interested in trying  
19 to help their fellow worker, or their fellow neighbour  
20 through the Credit Union to enjoy a little bit better  
21 economy and the feeling, over and above that of money  
22 lending, that there is a kind of non-profit motivating  
23 guidance, interest in helping him achieve better manage-  
24 ment and control of his finances.

25           Many financial institutions, the kind that  
26 I refer to, and again I emphasize that we want more of  
27 them and we want them to be in existence, they cannot  
28 afford to take care of the \$50 or \$100 or \$300 dollar  
29 loan because the cost of making that kind of loan is  
30 just not practical. Many of them cannot do what Credit





1 Union can do and have done and are doing extensively.  
2 They make it possible for the individual to have a  
3 savings account. The first savings accounts on the part  
4 of individuals were because of the extraordinary amount  
5 of effort expended by these volunteers in the Credit  
6 Union Organization to get them to acquire a savings  
7 account, to begin savings in their Credit Union.

8 Most of the people in this room back here  
9 have had experience either as organizers or managers  
10 or officials of Credit Unions and we can tell you stories  
11 as long as the Commission will sit, about the individual  
12 who never had savings accounts, never had any skill  
13 or knowledge or discipline in the management of money.

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1           Because of the aspect of the Credit Union,  
2   the way it operates, the concern for the welfare of  
3   the individual they have helped the individual pull  
4   himself out from the area of financial looseness and get  
5   into a period where they begin to achieve a few dollars  
6   of savings, stability and self-reliance that comes  
7   with it.

8           Great organizations long ago recognized the  
9   value of the Credit Union as being an employer, employee  
10   relations tool. Many of the executives of blue chip  
11   organizations have told me that the Credit Union is more  
12   important to the company than it is to the Credit Union  
13   because it has helped in many cases where employees were  
14   upset by financial worries, problems. He was an un-  
15   happy employee, distressed employee, caused accidents,  
16   loss of production, had arguments at home, divorce and  
17   so on and the Credit Union would help him achieve the  
18   control of his credit and his financial needs and then  
19   he became a happy and productive employee and got along  
20   more happily with his fellow workers, and this is one  
21   of the reasons that industry has long ago recognized  
22   that this kind of cooperative, self-help tool has been  
23   invaluable in employer, employee relations.

24           MR. STEWART: Well now, Mr. Shipe, let us take  
25   these things one at a time, not necessarily in the order  
26   you have put them to me. One of your points is that  
27   the Credit Union encourages the small man to save and  
28   that it makes small loans to individuals whom other  
29   financial institutions might not be particularly inter-  
30   ested in or they might not be able to provide the same





1 service. When we get to the question of whether there  
2 is any essential distinction between the type of thing  
3 you do and the type of thing the other financial instit-  
4 utions do -- I put it to you on that point, what you  
5 are really saying is that you provide this type of  
6 financial service for one type of individual, the small  
7 man, if you like, and these other institutions may provide  
8 similar services to people in higher income groups.  
9 Is this service not the same? ;

10 MR. SHIPE: Mr. Stewart, it would appear that  
11 the person who is in the higher income bracket is aut-  
12 omatically without financial problems. We find in the  
13 Credit Union that even the persons who are making \$10  
14 thousand dollars, \$15 thousand dollars a year, he often  
15 times has as much or more financial problems trying to  
16 make ends meet as the fellow making \$55 thousand dollars  
17 and \$6 thousand dollars a year.

18 MR. STEWART: Now you are telling me you go  
19 into the higher income groups. I am just trying to find  
20 out what distinction there is between the type of service  
21 you render your clientele and the type of service the  
22 other lending institutions render to their clientele.

23 MR. SHIPE: In the Credit Union, first let  
24 me say we only serve ~~the~~ groups having a common bond,  
25 this may be residence or employment.

26 MR. STEWART: This is a matter of defining  
27 clientele.

28 MR. SHIPE: Clientele, yes. In the group -- it  
29 depends on the type of industry or community, but there  
30 is bound to be a few that have higher income and the





1 majority will be normal or lower. This is the group that  
2 we primarily are serving. The Credit Union does give  
3 family financial guidance and it has been extraordinarily  
4 outstanding over a long period of time and I must  
5 emphasise in setting up the activity it has been be-  
6 cause of the large number of bankruptcies in the entire  
7 continent in recent years.

8 MR. STEWART: May I suggest to you what you  
9 are telling me is you may render very material services  
10 to your clientele. I am still afraid that I apparently  
11 haven't got my question over to you. Are you not essentially  
12 getting money in from your members and lending it out --  
13 again to the same or to other members, and is that not  
14 exactly what these other groups of financial institutions  
15 are doing?

16 MR. SHIPE: I don't think so. In fact, I think  
17 you are saying if I read you correctly that we are,  
18 you might say, on a straight line competition basis  
19 with other organizations. This I wouldn't accept because  
20 the Credit Union doesn't compete with other types  
21 of financial organizations in the sense that you think  
22 of competition, as I interpret from what you have said.  
23 The Credit Union is trying to serve its members, and  
24 only its members. Its clientele, these members are  
25 also owners and concerned about their total welfare  
26 and in the making of the loan to them there is  
27 an expenditure on the part of these volunteers of  
28 tremendous time and counselling in guidance or rewriting  
29 that the financial organizations couldn't do because of  
30 costs.





1 Mr. STEWART: I think that perhaps, Mr. Shipe,  
2 we better leave this one because I think we are not  
3 meeting here. We are passing each other.

4 MR. SHIPE: I appreciate the difficulty of  
5 your position, Mr. Stewart. I am not trying to evade.  
6 This is awfully difficult. If you came with me and  
7 visited a Credit Union and saw the Credit Union operate  
8 for a day or two or three I think you would see what I  
9 am trying to say. It is difficult trying to relate your  
10 conventional approach to the operation of your Credit  
11 Union. It is rather hard to tell.

12 MR. STEWART: I emphasize that I am not in  
13 any way failing to take into account what your motiva-  
14 tion is, but I am afraid that you haven't convinced me  
15 that the basic function you are performing is any diff-  
16 erent from that of other people, lending institutions.

17 MR. SHIPE: Could I tell you one instance?

18 MR. STEWART: Yes.

19 MR. SHIPE: In 1935 I organized a Credit Union  
20 just a few miles from here. I became Treasurer, Manager  
21 of it. One of the first pieces of advice I received  
22 from one of my fellow workers was that a young lady would  
23 be the first one to apply for a loan. He said, don't  
24 make her the loan because all the merchants in town  
25 are calling the company because she is behind on her  
26 accounts and has a bad record. Sure enough she was the  
27 first one to apply for a loan. Sure enough we did make  
28 a loan to her. When we made the loan to her we suggested  
29 that she put twenty-five cents a pay in her savings  
30 account. This was the first savings account this young





1 lady had in her life. She came from a very good family  
2 but never had any training concerning how to manage or  
3 discipline or buy on charge accounts. To make a long  
4 story short, over a period of time we helped this young  
5 lady acquire savings. We helped her to finance her debt  
6 so that she was able to clean up with the department  
7 store account and get herself on a current basis. She  
8 also had a trip to California. When she went there she  
9 met a charming young man and I visited the couple  
10 ten years ago when I was up there and I found they are  
11 very happily married. I am convinced because of the  
12 Credit Union interest in her which was over and above  
13 that of a normal financial transaction this young lady  
14 acquired skill in money management that has led her  
15 to be a very successful housewife.

16 MR. STEWART: That I quite concede. I am  
17 inclined to think it may be a reflection of the excellent  
18 service that the Credit Union can give its members, but  
19 whether it affects essentially the function is a  
20 different matter. Another of your clients ....

21 COMMISSIONER PERRY: Might I ask a question  
22 before you leave this point. Does the Credit Union  
23 Movement feel other financial institutions are competing  
24 with it?

25 MR. SHIPE: If you want to look at that,  
26 sir, the Credit Unions, since the first one was organized  
27 here in Quebec, Levy, Quebec, in 1900 it was motivated  
28 by a desire to bring low-cost credit to people who were  
29 not getting it and if they were getting it it was at  
30 usurious loan shark rates. The Credit Unions in the





1 United States started to roll with the establishment  
2 of the first one in Massachusetts in 1909. From 1909 to  
3 1929 Credit Unions were possibly the only source of  
4 consumer credit with the exception of high-rate money  
5 lenders and loan sharks.

6 In 1929 the first bank started to make consumer  
7 credit available in the United States. They have  
8 accelerated themselves and now most of them are in the  
9 area of consumer credit. Granted up to that time the  
10 small loan companies were growing rapidly during the same  
11 period and they were getting their capital expenditures  
12 from banks who were lending it to them. The small  
13 companies had rates of 42 per cent and higher and the  
14 Credit Unions I would say, pioneered and proved that  
15 there was a way of making loans available to the consumers,  
16 to the population who are in need of credit and will re-  
17 pay, and it could be done on a basis which would be  
18 profitable to banks. As a result you have seen how banks  
19 entered very extensively into consumer credit and how  
20 the department stores entered very extensively into  
21 consumer credit and the savings and loan associations  
22 are considering legislation so they can get into consumer  
23 credit. This might be viewed as competition with the  
24 credit unions, but we don't feel it is competition.

25 COMMISSIONER PERRY: You don't view that as competi-

26 MR. SHIPE: We feel we have a different job  
27 to do. If we have an individual who wants a loan say he  
28 can get it cheaper from another organization we say  
29 take the loan. We say to him if you can get a loan with  
30 all the other aspects of life insurance in the case of





1 death and permanent disability, if you can get a loan  
2 with the same amount of consideration, because this is  
3 most important in borrowing, not only to know what the  
4 rate is, but what kind of an organization and person you  
5 are borrowing from because in the Credit Union if a person  
6 has an unfortunate catastrophe which may not be taken  
7 care of by insurance, in many cases the loan is rewritten  
8 or there is an extension or waiver of interest or just  
9 charge off. This is the kind of consideration that is  
10 possible because the Credit Union is primarily a paternal  
11 organization.

12 COMMISSIONER PERRY: Let us switch out of the  
13 lending aspect and see whether there is competition in  
14 getting the deposits. Do you feel when one of your members  
15 switches his account out of your control and into a  
16 trust company that this has been a result of competitive  
17 farce?

18 MR. SHIPE: It could be both. I would say this  
19 is a matter of factual record, that the Credit Union  
20 in many cases find a person who has had no banking ex-  
21 perience, not even a savings account or any borrowing  
22 and through the training process that comes about as a  
23 result of his Credit Union experience he becomes not only  
24 a Credit Union member but a member, in future of a  
25 bank or trust company, and a very successful one.

26 I said to a group the other day that I really  
27 feel that the banks ought to make a contribution to the  
28 Credit Unions, to help us organize more Credit Unions  
29 and get more people to join Credit Unions because it is  
30 one of the best educational expenditures they could make





1 because of the training that the member gets, there is  
2 an upgrading, if you like, to the point where he becomes  
3 a patron and a customer of a bank and has gone through  
4 a graduation process.

5 COMMISSIONER PERRY: You don't really mind  
6 this process of letting the depositor go on?

7 MR. SHIPE: No, we don't, because we feel a  
8 person should be using the financial organizations which  
9 are legitimately established in his community to serve  
10 his needs. Credit Unions cannot serve all his financial  
11 needs. The Bank is the department store of finance.  
12 The Credit Union is the Specialty Shop.

13 COMMISSIONER BEAUVAIS: I would like to ask  
14 a question on this point. You stated that the first  
15 Credit Union was formed in Quebec in 1900. Was that  
16 the Caisse Populaire?

17 MR. SHIPE: That is correct.

18 COMMISSIONER BEAUVAIS: Caisse Populaire.

19 MR. SHIPE: By Alphonse Dejadins.

20 COMMISSIONER BEAUVAIS: You stated at that  
21 time it was the only way of getting a small loan. Is  
22 it not a fact that the ~~savings~~ banks were established  
23 in Quebec about 120 years ago and specialized in making  
24 small loans of \$300.00 that you talked about a few moments  
25 ago and at effective rates of 6 per cent?

26 MR. SHIPE: I am talking about the idea which  
27 grew into the movement and spread widely. We have had  
28 among the Jewish people the Actzia, among the Various  
29 national groups organized from the standpoint of serving  
30 the need, the less fortunate in the group. The movement





1 has grown into the idea which spread from one locality.  
2 The idea, the germ was planted in ~~Levis~~ and grew through-  
3 out Quebec and spread into Ontario, New England and the  
4 rest of the United States, and as a result of certain  
5 modification it is the ideal which is now being develop-  
6 ed in Central and South America, in Africa, in Europe,  
7 in the Phillipines and so forth. It is the germ of the  
8 idea from the isolated instance. If I took the history  
9 of the Credit Union Movement back far enough I could  
10 find that the Chinese had a type of thing like that. I  
11 know that the Monks had one called Mon-pietas. The thing  
12 that really started on this continent what we call the  
13 Credit Movement started in ~~Levis~~ by Alphonse Desjardins.

14 COMMISSIONER BEAUVAIS: I think it is not an  
15 isolated case. There are two savings banks. They have  
16 extensive borrowing as do the Credit Unions or the Caisse  
17 Populaire and again I point out that the ~~rate of~~ interest  
18 is much lower than the Credit Union's or the Caisse Populaire  
19 Populaire -- not the Caisse Populaire, but Credit Unions  
20 because your effective rate would seem to be 12 per  
21 cent and the savings bank is 6 per cent. Isn't that a  
22 fact?

23 MR. SHIPE: They vary. I think there ~~was a~~  
24 little bit of consternation here at the table when we  
25 were talking about interest rates. They can't exceed  
26 1 per cent per month, but generally in Canada and  
27 particularly in the provinces of Saskatchewan, Alberta,  
28 Manitoba and the Maritimes, the rate is less than 1 per  
29 cent per month.

30 COMMISSIONER BEAUVAIS: Nevertheless your





1 brief mentioned a maximum of 1 per cent and generally  
2 you said maybe a rebate of 10 per cent on that 1 per  
3 cent. That means surely you are now over 10 per cent  
4 effective.

5 MR. SHIPE: I don't think savings banks can  
6 provide this without cost to the borrower, insurance on  
7 life, in case of permanent disability, total disability.

8 COMMISSIONER BEAUVAIS: They do.

9 MR. SHIPE: This is something Credit Unions do.

10 COMMISSIONER BEAUVAIS: I know in Quebec the  
11 savings banks do that.

12 MR. SHIPE: In recent years. The Credit Unions  
13 have been doing this since 1930.

14 COMMISSIONER BEAUVAIS: Yes, I know. Thank  
15 you.

16 MR. STEWART: Mr. Shipe, another distinction  
17 which you drew between Credit Unions and these other  
18 financial organizations was related to the position of  
19 shareholders.

20 ----





1 MR. STEWART: In the case of a chartered bank,  
2 for example, capital is obtained through the sale of  
3 shares and through deposits. In the case of one of  
4 your Credit Unions, capital is obtained through payment  
5 into a share account, and through deposits. In the case  
6 of the Credit Union the person who makes these payments  
7 in, apparently, expects some return on what he pays in  
8 each year. The return will be based, to some extent,  
9 on the results of operations. In the case of the char-  
10 tered bank, the shareholder will expect or hope for a  
11 rate of return; the depositor, his reasonable share of the  
12 rate of return, whatever you agreed to. Is there any  
13 distinction in your experience in the sense that, as I  
14 understand your movement, you expect people to provide  
15 you with capital, to be satisfied with relatively low  
16 rates of return?

17 MR. SHIPE: Yes. We happen to have a conden-  
18 sation of this recent study, and we have got, on Page 8  
19 of this study "Credit Union Members by Income Groups"  
20 and this was prepared by Dr. Croteau, formerly from Prince  
21 Edward Island now of Notre Dame, and this was financed  
22 by grants from the Health, Education and Welfare Depart-  
23 ment and I refer you to the table at the bottom of  
24 Page 8, and these reasons given why the person saved,  
25 where their savings were kept: banks, savings and loan  
26 associations, insurance, investment and credit unions  
27 and the reason why people save in the Credit Union,  
28 67.3 per cent was convenience. Then safety was next,  
29 39.2. Provide insurance, 38.6. Credit Union is in  
30 there to help these members, encourage these members to





1 save and also help them achieve better economic security  
2 as it provides insurance, life insurance on their savings  
3 up to a maximum of \$2 thousand dollars. Helpful service,  
4 25.8. Run by people I know, 23.1. Friendliness, 21.  
5 per cent and higher returns was 19.6, so you can see  
6 that the primary reasons are greater, and the motivation  
7 for savings because of high returns is the last in the  
8 minds of the members, according to this study by the  
9 most renowned Credit Union Economist on the continent.

10 MR. STEWART: It is a little curious to me  
11 that if you look at the left-hand column, where you are  
12 dealing with reasons given for dealing with banks  
13 among members, which I suppose may be shareholders,  
14 19.6 per cent of those consulted apparently saved there  
15 because of high returns, and that happens to be  
16 exactly the same percentage as in the case of Credit  
17 Unions.

18 MR. SHIPE: I would say that is one of those  
19 phenomena.

20 MR. STEWART: But in any event, is it not a  
21 fact that in your movement you intend to keep the return  
22 paid on the savings relatively limited?

23 MR. SHIPE: Yes. We do, in some of our  
24 legislations provide that the return can never exceed  
25 6 per cent.

26 MR. STEWART: But there again, while the rate  
27 of return may vary, you attract the savers, just as these  
28 other institutions attract savers and each of them saves,  
29 at least in part, because he expects a rate of return  
30 on his money.





1 MR. SHIPE: The Credit Union saver, from the  
2 point of this study -- the rate of return as his motiva-  
3 tion for saving in the Credit Union is the bottom of the  
4 list of about six items. Seven -- it's the seventh on  
5 the list of incentives.

6 MR. STEWART: It's the same degree of incentive  
7 as in the case of people who deal with banks. Then  
8 another point that you made when I tried to compare your  
9 operations with those of other lending institutions was  
10 that you are able to call on volunteer help and unpaid  
11 assistance from members of the Credit Union but is this  
12 not simply a matter of how you organize your organization?  
13 On this basis your operation should be a lower-cost  
14 operation than these other institutions, and therefore,  
15 should permit you to loan your funds at a lower rate?

16 MR. SHIPE: I submit, Mr. Stewart, that our  
17 operation does provide credit at a lower rate of interest  
18 than, generally speaking, other organizations. If you  
19 compare consumer credit provided by the Credit Unions  
20 as compared to that of the small loan companies, I  
21 think you will find our rates to be about one-third or  
22 one-quarter of what they charge.

23 If you compare it with the revolving credit  
24 plan of the department stores, I think you will find it  
25 considerably lower. If you compare it with the charge  
26 by banks, again normally and generally speaking I  
27 think you will find it lower. Now if you compare it  
28 with the other financial companies and make a total  
29 comparison, you will find it's substantially lower.

30 MR. STEWART: Mr. Shipe, I am not discussing at





1 the moment the question of competitive rates. I am just  
2 observing that this distinction you attempt to draw  
3 seems to me to relate not to the nature of the activity  
4 but to the cost of the activity.

5 MR. SHIPE: Mr. Stewart, you have to compare  
6 apples with apples. If you are going to compare the  
7 cost of a loan from a Credit Union, you have to compare  
8 it with what it would cost from other organizations and  
9 because of the unique nature of the Credit Union, it  
10 provides credit to its members at a cost substantially  
11 lower.

12 MR. STEWART: You see, I am still having diff-  
13 iculty with my main proposition. Looking at it from the  
14 coldly business financial point of view, just what is  
15 the essential distinction between what you do and what  
16 these other companies do and it is my impression, Mr.  
17 Shipe at the moment, that the distinction may be one  
18 of motivation. You say that your members, by and large,  
19 do not have a profit motivation. I do not think anyone  
20 would suggest that a person buys shares in a chartered  
21 bank or loans money to a chartered bank for altruistic  
22 reasons. They are doing it for the sake of obtaining  
23 a return. Now it seems to me that your members make  
24 their payments to their Union apparently, perhaps moti-  
25 vated by the prospect of a return but apparently from  
26 what you say for other reasons altogether.

27 MR. SHIPE: That is right. Again we come  
28 back to the difficulty I have, and I appreciate the prob-  
29 lem of trying to explain the unique nature of the Credit  
30 Union because it seems in some ways to be contrary to





1 the conventional way of doing things and for that  
2 reason, it shouldn't and just couldn't exist but the  
3 history of the Credit Union, the idea that there are  
4 hundreds of thousands of officers and committee members  
5 who will give of their time and their efforts and their  
6 knowledge to make it possible to pool the savings of  
7 the members and to make these savings available for the  
8 group at low cost for provident and productive reasons.  
9 That is the operation. I grant you the motivation, the  
10 objective is that of service but ~~because~~ of the peculiar  
11 nature of the way the Credit Union operates, it's a  
12 service idea of trying to help the employee in a factory,  
13 for example. They are interested in their fellow employees  
14 having this kind of service and the assistance and guid-  
15 ance that they can get, that they can't get in the  
16 same way from other types of organizations.

17 I am reminded of the case in the newspapers  
18 several years ago where this young fellow ~~used~~ to like to  
19 get a loan every so often and go to town for a weekend,  
20 and he never saved anything so the Credit Union Committee  
21 said to him "Joe, when you get a loan this time, we  
22 want you to put a dollar in your savings account as  
23 security for the loan", and so then it went along and  
24 he wanted to withdraw it. They said "Joe, no, you can't  
25 withdraw that. That is security for your loan." So he  
26 paid up his loan and he came to withdraw and they said  
27 you can't withdraw it. That was security for your loan.

28 We are all agreed this was a kidding operation  
29 but through the kidding, because of the activity on  
30 the part of the Credit Committee ~~his~~ fellow workers, they





1 got Joe into the habit of saving and acquiring savings,  
2 where he wouldn't have acquired them any other way. This  
3 kind of thing is going on day in and day out. You can't  
4 do this in the normal financial organization because you  
5 have to operate along certain business lines and you have  
6 to take care of a large percentage of the population in  
7 order to make the kind of investment that that kind  
8 of organization needs to keep it in existence. This is  
9 proper and right but I hope that there is a place for  
10 this kind of organization which is interested in the  
11 welfare of the individual and very much so to-day.

12 MR. STEWART: I don't think anyone would  
13 suggest that there is not a place for the Credit Union  
14 type of organization, but what I would like to come  
15 to now for a few minutes is what I obviously have been  
16 leading up to, and that is this: if the Credit Union  
17 is performing the same basic function as these other  
18 lending institutions, whether it competes with them dir-  
19 ectly or whether they compete with it directly or not,  
20 or whether there is simply an overlapping area of their  
21 activities, it seems to me to be perfectly plain from  
22 this year book of yours that there has been a very  
23 substantial growth in Credit Union activity over the  
24 years, and perhaps more particularly since the time the  
25 last Royal Commission dealt specifically with the  
26 taxation of Credit Unions in 1945. If you in your  
27 Union carry on these same functions as these other people  
28 who are perhaps more commercially oriented than you are,  
29 and if in fact you make a return or a profit or a gain,  
30 call it what you will, from the activities you carry on,





1 why should you not pay the same income tax as they do  
2 on the gain from your operation?

3 MR. SHIPE: That is a good question Mr.  
4 Stewart. I knew you were leading to it. As the girl  
5 said to the fellow why don't you get to the point you had  
6 in mind.

7 MR. STEWART: I wanted to be sure we understood  
8 each other as to what goes on.

9 MR. SHIPE: First, we don't -- the motivation  
10 of the Credit Union and the motivation of the other  
11 types of organization is different. I cannot agree that  
12 there is a similarity in motivation and I cannot agree  
13 that the method of operation is the same. I think we  
14 operate distinctly different. We have a different ob-  
15 jective and I hope that both the objectives and method  
16 of procedures are very desirable and necessary not only  
17 to our economy but to our social and political structure.

18 I say if you were to tax Credit Unions in the  
19 same way as has been proposed, or we hear proposed, then  
20 you are signing the death warrant for Credit Unions and  
21 also you are bringing into being an entirely new concept  
22 of taxation because you will then begin to tax the  
23 voluntary, contributory effort on the part of individuals,  
24 the officers, the committee members, the volunteers who  
25 contribute their time to the operation of the Credit  
26 Union, and I would submit that if you do tax Credit  
27 Unions, then you will be taxing the voluntary effort on  
28 the part of people who engage in fraternal and religious,  
29 labour union and co-operative and farm and professional  
30 organizations and give of their time and effort and their





1 ability.

2 MR. STEWART: Well now let us just consider  
3 this. I would like to come, in a few moments if I may,  
4 to your proposition that this would kill the Credit  
5 Unions because in this country, as no doubt you know,  
6 we have a dual rate of corporate income tax, which you  
7 do not have in the United States,--and we may find when  
8 we get into this that most of your Unions would be sub-  
9 ject to tax at a low rate and that their members would  
10 then receive certain benefits which are not available to  
11 them in the United States, but before getting on to  
12 the effect of taxation on Credit Unions, I would like  
13 to put this one proposition to you: you say that the  
14 motivation is different and, in effect, you say that you  
15 don't intend to make a profit from your operations.  
16 Now I have got two questions, really three. The first  
17 one is: do you really proceed on the basis that you  
18 are not going to make a profit at all, or do you not  
19 really proceed on the basis that you are going to try  
20 to make a limited profit?

21 MR. SHIPE: We operate on the basis of trying  
22 to provide a service to the members. We don't try to  
23 make a profit because the owners of the Credit Union are  
24 the members so they are also the customers and there is  
25 this dual relationship.

26 MR. STEWART: Remember now that we are talking  
27 now not only about these rural Credit Unions with 50  
28 or 100 or 200 members, but we are talking about industrial  
29 Credit Unions with 10,000 members so that when a partic-  
30 ular individual puts his savings into that type of Union,





1 the people who are going to benefit from the savings  
2 are the borrowers, who may be people who are not known  
3 to him at all except that he may know that they are em-  
4 ployees of the same company. Is it not the intention  
5 that there will be a real spread between your borrowing  
6 rate and your lending rate and that that spread is going  
7 to be sufficient to pay your expenses and to provide a  
8 reasonable return to the people who contribute their  
9 capital to the operation?

10 MR. SHIPE: Well the organization has to  
11 operate in a way so there is a sufficient flow of money  
12 to take care of the expenses. You have to pay for his  
13 employees, their salaries. If it doesn't have a staff,  
14 and most of them don't have, then the Manager who takes  
15 care of this extra-curricular, in effect at home or  
16 Sundays and Weekends and gets an honorarium at the end  
17 of the year. There is the expense of the Credit Union.  
18 The officers who handle the money are bonded. There  
19 is the bond premium expense. There is the expense of  
20 the insurance premium on the shares and on the loan.  
21 There is the expense of bookkeeping supplies and the  
22 expense of purchasing some materials, giving members  
23 a better understanding of what the Credit Union is all  
24 about. We also have a league in the province, the  
25 international organization, and there is the dues rate  
26 that is fixed by the members themselves to carry on the  
27 activities of these organizations which is primarily in  
28 the area of organization of education and so these are  
29 the expenses. Now the Credit Union does try to operate  
30 on the basis of as near cost as possible.





1 That is why it reduces the charge for the  
2 loan whenever it practically can. That is why it has  
3 grown up in the interest refunds. That is why it tries  
4 to reduce the cost to a basis where the spread that you  
5 see is as limited or as small as possible.

6 MR. STEWART: Mr. Shipe, granted all that,  
7 my question was does the Credit Union not carry on on  
8 the basis that there will be a spread between what it  
9 pays for its funds and what it receives for its funds  
10 which spread will be sufficient -- I am sorry, I will  
11 rephrase the question if I may. Does the Credit Union  
12 not operate on this basis, that it must charge enough  
13 for the monies it loans to permit it to pay these ex-  
14 penses that you refer to and to provide a reasonable  
15 return to the people that make their savings available  
16 to it?

17 MR. SHIPE: Yes, it tries to operate in that  
18 area. There are many other factors ~~not~~ <sup>not</sup> kept in  
19 mind. It cannot predict the future any more than you  
20 or I can and there is liable to be such things as an  
21 extraordinary amount of charge off loans over the amount  
22 set aside in the normal reserve. There might be in  
23 the case of an industrial group, there might be a  
24 plant closing or a strike or a walkout, or there might  
25 be a long period where the loans would be outstanding  
26 or maybe there might be some extraordinary instance  
27 where the plant is closed for quite some time and the  
28 people might scatter all over the continent and be  
29 rather difficult to communicate with. These unexpected  
30 things too are part of the picture of the operation.





1 MR. STEWART: Are we not in this position,  
2 that year by year Credit Unions are getting money in at  
3 one rate with the intention of paying it out at another  
4 rate?

5 MR. SHIPE: Yes, that is true. That would be  
6 the normal practice.

7 MR. STEWART: So that there is going to be  
8 a spread of some sort and whether or not this is the  
9 intention, I put it to you that that spread can reason-  
10 ably be regarded as gross profit, the gross income from  
11 their operations.

12 MR. SHIPE: We refer to it as gross savings  
13 and net savings.

14 THE CHAIRMAN: Mr. Stewart, apart from semantics  
15 surely the purpose of this exercise is to provide  
16 economic benefit to the members of these organizations  
17 and the economic benefit is capable of being measured,  
18 I would think, whether we call it savings, call it  
19 income, whatever it is it has the same economic  
20 benefit to the organization.

21 MR. GAULEY: I don't think it has the quality  
22 of income that the corporate entity or corporate struct-  
23 ure has, simply machinery to accomplish this purpose.  
24 Where a number of people band together to achieve a  
25 certain purpose, if there happens to be a surplus which  
26 may be called one thing or another in the form of a  
27 balance sheet -- there may or may not be, if there is  
28 it is not necessarily the one. I submit that if it  
29 is a mutual or has similarity to a mutual then it  
30 is similar to a group of people who





1 are farmers marketing their wheat and using an agency  
2 to do so or sell horses as they did in the horse co-op,  
3 and perhaps if it is a service, in the case of insurance  
4 where they band together and have a surplus and set  
5 up reserve and the legal title is in the name of the  
6 legal entity, nevertheless the services or the  
7 doesn't have the quality of income.

8 THE CHAIRMAN: I don't know what that quality  
9 is. Perhaps you can explore that. The word "income"  
10 has always to some extent eluded me.

11 MR. STEWART: I think what Mr. Gauley is  
12 alluding to is a point made expressly in the next brief.  
13 I don't know whether you would like to discuss it here  
14 or later, Mr. Chairman. What he is putting to us is  
15 that these Credit Unions are similar to agency co-operatives,  
16 that the Credit Union office is an agent for its members.  
17 This is a proposition I am quite prepared to discuss  
18 at some stage during the day and I don't mind whether  
19 it is now or later.

20 THE CHAIRMAN: I will leave that to you.

21 MR. STEWART: Perhaps we could leave it because  
22 it is discussed in the other brief with which I think  
23 you are connected?

24 MR. GAULEY: Yes.

25 MR. STEWART: Now, it has just been suggested  
26 that these Credit Unions resembles co-operatives. Let's  
27 us suppose for a moment that the present tax exemption  
28 on Credit Unions ~~was~~ removed and that they were going  
29 to be taxed as co-operatives, to what extent do you  
30 consider that the present deduction which co-operatives





1 enjoy in relation to patronage dividends would be  
2 helpful to Credit Unions on that modified tax base?

3 MR. SHIPE: Mr. Stewart, I don't believe we  
4 can get into this type of comparison on any kind of  
5 factual or accurate helpful basis because the co-operative  
6 organizations in purchasing or marketing will do  
7 business with the general public. I think it has  
8 introduced another element. The Credit Union does bus-  
9 iness or serves only its members who are within this  
10 common bond. It is very clearly defined situation that  
11 operations in the Credit Union cannot accept the savings  
12 or try to assist a member with a loan unless he is first  
13 a member of that common bond, and certainly becomes a  
14 member of the Credit Union. I don't think we can compare  
15 or draw any conclusions that you are asking us to give  
16 an opinion on.

17 MR. STEWART: I don't think, Mr. Shipe, that  
18 there is any requirement in this country, any require-  
19 ment that a co-operative should deal with other than  
20 its own members.

21 MR. SHIPE: But it may do.

22 MR. STEWART: It may do. Let us take one  
23 that doesn't.

24 MR. SHIPE: It is true of the Credit Union.  
25 It can't. It has a clear Act.

26 MR. STEWART: I am not sure that I see the  
27 importance of the distinction. There is no doubt there  
28 are co-operatives which deal only with their own  
29 members. Let us assume there are in any event. Let  
30 us assume that Credit Unions were taxed as co-operatives and





1 in line with the present laws of this country were entitled  
2 to deduct patronage dividends. What I would like to  
3 determine, if we can, is how helpful that deduction  
4 would be to you. You see after you grant rebates, interest  
5 rebates to those borrowers of yours, then it , then it  
6 may well be that the amount of these rebates is deductible  
7 where the additional interest that apparently in certain  
8 circumstances you pay to depositors at the end of the  
9 particular year, whether that additional interest  
10 would be regarded as a patronage dividend or not seems  
11 to me to be somewhat argumentative. Perhaps I could  
12 put it this way: have you given any thought to these  
13 questions? Have you any views as to how useful  
14 dividends would be if you were taxed as co-operatives?

15 MR. SHIPE: There are various kinds of co-  
16 operatives and the taxation of Credit Unions would be a  
17 very different taxation with the voluntary effort of  
18 individuals and the contribution that these individuals  
19 are making to their organization and this would be a  
20 new concept of taxation.

21 MR. STEWART: Co-operatives also have vol-  
22 untary workers and unpaid effort and so on.

23 MR. SHIPE: Not to the same extent as Credit  
24 Unions.

25 MR. STEWART: I suppose it may vary from  
26 case to case.

27 MR. SHIPE: It varies considerably in the  
28 Credit Unions.

29 MR. STEWART: I quite concede that this is  
30 a new phase of taxation. I am just asking if you have





1 considered what the effect of that would be so far as  
2 patronage dividends are concerned.

3 MR. SHIPE: We have heard a lot of proposals  
4 but we have seen nothing concrete regarding what might  
5 be. Everything that has been proposed so far would, as  
6 I said earlier, be the death knell for Credit Unions.

7 MR. STEWART: Let me come to that: the basic  
8 rate of taxation in this country, I am talking about cor-  
9 porate tax, on the first 35 thousand dollars of taxable  
10 income is 21 per cent. This may be increased by 1  
11 or 2 points in certain provinces depending on Local  
12 law, but suppose Credit Unions were taxed on their in-  
13 come. Let us make a further assumption, suppose they  
14 are going to be taxed the same way as co-operatives but  
15 that the present deductions which co-operatives are  
16 permitted on patronage dividends were taken away so  
17 that Credit Unions and co-operatives are taxed on in-  
18 come without any such deduction. Have you any idea  
19 what proportion of your Credit Unions would have income  
20 in excess of 35 thousand dollars taxable income?

21 MR. SHIPE: Very few, but again the tax bite  
22 as we understand would be a different bite than it would  
23 be on the other kind of organization because of the  
24 nature of the Credit Union, so again it would be the  
25 death knell of the Credit Union idea.

26 MR. STEWART: Well now, what feature of the  
27 organization of Credit Unions are you referring to here?  
28 You refer to some of the differences between Credit  
29 Unions and other types of organizations. What differences  
30 are you referring to?





1  
2 MR. SHIPE: You mentioned the credit for patronage  
3 refund. The Credit Union's patronage refunds, the  
4 large share of its savings return is in the form of div-  
5 idends. Would you consider a credit for the dividend  
6 and the interest paid on the deposits of the  
7 refunds before the net taxable amount?

8 MR. STEWART: I was putting it to you...

9 MR. SHIPE: Would you consider that?

10 MR. STEWART: Let me make quite plain what I  
11 have in mind. It is the extreme case where you are  
12 taxed as co-operatives, but the co-operatives present  
13 deduction of patronage dividends has been repealed. This  
14 is purely hypothetical. You have indicated just now that  
15 the great majority, all but a very few of the Credit  
16 Unions would have deductible income of less than \$35  
17 thousand dollars. It appears to follow at the moment  
18 that the effective rate of Federal income tax on the  
19 Unions would be 21 per cent. I wonder if you could  
20 comment on this? Let us try to take an example here  
21 because examples are certainly helpful.

22 Let us suppose we have a Credit Union which  
23 has a taxable income of 20 thousand dollars. It pays  
24 tax of 21 per cent on that which would amount to \$4,200.00,  
25 so that there would be a balance after taxes of  
26 \$15,800.00. Let us take an easy case of a Union which  
27 has got a Statutory Reserve so that we haven't any com-  
28 plication about allocation or appropriations of reserve.  
29 If that Credit Union were to distribute that \$15,800.00  
30 to the savers, that is divide it up between the people





1 who have money in share accounts and people who have  
2 money in deposit accounts -- let us deal with the share  
3 accounts in any event, let us suppose again to make it  
4 easier that we have nothing to think of but share accounts.  
5 With our Canadian dividend tax credit of 20 per cent  
6 available to the members when they received their par-  
7 ticular portion of the \$15,800.00 that money would go  
8 up, it would increase the income of the members and the  
9 Government would get a dividend tax credit amounting to  
10 20 per cent of \$15,800.00 which is, according to my  
11 rough calculations, \$3,160.00 off their taxes, assuming  
12 that they are taxable. Now, you have the Credit Union  
13 paying a tax of \$4,300.00 but you have got your members  
14 receiving a tax credit of \$3,160.00 so that the Government,  
15 the Federal Government has taken an increased amount,  
16 if my calculations are correct, an increased amount be-  
17 fore \$1,040.00 from the Credit Unions.

18 MR. SHIPE: If I heard you correctly, and this  
19 was about a 100 mile question.

20 THE CHAIRMAN: Mr. Stewart, whenever you  
21 succeed in putting your question across, suppose we break  
22 and allow Mr. Shipe to think about it. This is brand  
23 new and he doesn't know anything about Canadian tax.

24 MR. SHIPE: I would appreciate your difficulty  
25 in trying to put the question. It was quite a long one.

26 MR. STEWART: I know it was and I apologize for  
27 it. It is a difficult type of examination to carry on.

28 MR. SHIPE: I gather and I may not have got it  
29 right, due to the credit that the individual might have  
30 paid it would sound as if he was getting more back from





1 the Government than what the total collection would be  
2 to the Government and this seems to be contrary to what  
3 might be the motivation of the Commission. You are try-  
4 ing to find methods of getting additional money, not  
5 ways and means of going through all this bookkeeping and  
6 ending up with something that would take more out of  
7 the Treasury than put in it.

8 THE CHAIRMAN: Is this a good time to break?

9 MR. STEWART: Perhaps I could give Mr. Shipe  
10 my figures. I would like to put the figures to you again.  
11 We are assuming now that a particular Credit Union has  
12 taxable income of \$20,000.00 on which it is subject to  
13 21 per cent tax. I calculate the tax at \$4,200.00 so that  
14 after tax income would be \$15,800.00. On my example  
15 we assume arbitrarily that the whole \$15,800.00 is  
16 distributed by way of dividends to the shareholders of  
17 the Credit Union. I put it to you that if our dividend  
18 tax credit, which is provided for in Section 38 of our  
19 Tax Act is extended to dividends of this type that the  
20 credit would aggregate \$3,160.00. I should add this,  
21 Mr. Shipe, you appreciate these shareholders are going  
22 to pay tax on the \$15,800.00.

23 MR. SHIPE: They are now.

24 MR. STEWART: They are now anyway. I am point-  
25 ing out to you on this basis they will get dividend  
26 tax credit of \$3,160.00 so that if you take the combined  
27 effect of these two it appears to me that the Credit  
28 Union and its members, between them, have been nicked  
29 for the difference between the \$4,200.00 and the \$3,160.00.  
30 My example may not stand up under your scrutiny but





1 I would be interested in your opinion on it.

2 MR. SHIPE: It is an interesting theory.

3 THE CHAIRMAN: You brought this on yourself,  
4 Mr. Shipe, by speaking about the death knell which  
5 would result from it. Mr. Stewart put the tax to you.  
6 I think you should examine the tax and see if that  
7 supports the fact that this would constitute the end of  
8 the movement because that is what you said to us. It  
9 is very significant and a very important statement.

10 MR. SHIPE: I said if the various tax proposals  
11 that we have heard about happened it would be very  
12 easily the death knell of the Credit Union Movement.

13 THE CHAIRMAN: We don't know what you have  
14 heard about. All we know is what Canadian Tax is.

15 MR. SHIPE: I asked Mr. Stewart what had been  
16 proposed and I haven't heard anything specific until  
17 now.

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1 THE CHAIRMAN: That is the law as it now  
2 stands and that is how it would be applied to Unions I  
3 think if your motivation is to make them taxable.

4 I think, if it suits you, we will adjourn  
5 now and we would like to get back by 2:15. Do you think  
6 you gentlemen can be back by 2:15, an hour and ten minutes?  
7 If so, we will adjourn now until 2:15.

8 --

9 Luncheon Adjournment

10 --

11 Upon Resuming at 2:15 P.M.

12 MR. STEWART: Well Mr. Shipe I think that you  
13 were going to attempt, during the break, to give some  
14 thought to this hypothetical case I put to you. I don't  
15 know whether you had an opportunity and if so, what  
16 emerged.

17 MR. SHIPE: Mr. Chairman, ladies and gentlemen,  
18 We did not have much time because we had problems trying  
19 to find a place to lunch, and get back and I don't know  
20 whether or not I will be able to do justice to this, but  
21 I will do my best to try.

22 I grant you this is a hypothetical question  
23 and it's always difficult to produce an answer to a  
24 hypothetical question and there are some terms here I am  
25 not too sure of but I will quickly go on and say that  
26 we are talking about savings in our Credit Union and we  
27 would reserve the right to discuss that further. I don't  
28 want to prolong or in any sense of the word try to give  
29 you the impression that I am a tax expert.

30 THE CHAIRMAN: Well would you care to pass this





1 on to one of your Canadian associates here who undoubtedly  
2 will be familiar with the tax laws of the country, and ask  
3 them if they are correct and based on their correctness  
4 or not, you can then carry on. Would that help you?

5 MR. SHIPE: Yes, we would like to do that  
6 Mr. Chairman. I appreciate very much the suggestion, and  
7 I will, with your permission, try to make a few statements  
8 as to what we have tried to pull together, and then they  
9 will feel free to come in at any point.

10 The assumption that has been devised by my  
11 good Canadian associates is that many members are not in  
12 this tax bracket, and, therefore, the 20 per cent credit  
13 that counsel has said would be of no value to them. And  
14 then the others would be in a source of income where they  
15 have already used up the deduction, so the member would  
16 pay and the credit would be of no use to him so the  
17 additional bookkeeping and expense to the Government would  
18 far offset any possible revenue.

19 Of course, this then brings up the question  
20 as to whether or not any tax which is levied would produce  
21 more than the cost of collecting.

22 THE CHAIRMAN: We will do our best in that  
23 area I think Mr. Shipe.

24 MR. SHIPE: I was about to say that I appreciate,  
25 and I don't in any sense want to imply that I am in your  
26 area. I appreciate this is not my preogatives or I am  
27 not knowledgeable in this area.

28 I I would like to cite one experience I had  
29 having to do with the withholding or the reporting of  
30 interest and dividends on bank saving and loan corpora-





1 tions. Credit Unions are now required to report the  
2 interest or the dividend that is paid and there was quite  
3 a bit of discussion and this was originally started out  
4 as being a withholding on this interest or dividend to  
5 the industry by the Savings and Loan Association and  
6 this is not working because of the mountainous paper work  
7 which is a tremendous expense to the reporting institution  
8 as well as trying to check it against the returns of the  
9 individual, so from that standpoint there is a big  
10 question as to what it will produce in the way of revenue.  
11 I don't know if I have been helpful or not. Maybe I  
12 can ask a question of some other member of the group here.

13 THE CHAIRMAN: I was only interested in one  
14 point, so far as you were concerned, namely,, whether such  
15 a tax would end the life of the Credit Union.

16 MR. SHIPE: In my opinion, the type of tax  
17 as hypothetically proposed by counsel, would result in  
18 several things. One: a necessity for change in the opera-  
19 tion of the Credit Union which I would look upon person-  
20 ally as not being desirable and, as a result of these  
21 changes which would come about, plus the things here, I  
22 think it would cause the Credit Union to go into a rapid  
23 decline and I cited the figure in the year book which shows  
24 already that the number of Credit Unions being organized,  
25 and the amount of savings, and so forth, coming into  
26 Credit Unions in Canada is on the decline and the economic  
27 benefit that Credit Unions provide is now being provided  
28 more and more by other organizations and the fraternal  
29 aspect of the Credit Union, the specialized helpfulness  
30 of the Credit Union is becoming increasingly more of





1 value with Credit Union membership.

2 MR. STEWART: Well now Mr. Shipe I wonder  
3 whether it would be reasonable to ask you with your ass-  
4 ociates to review that example still further and perhaps  
5 let the Commission have any further comments that occur  
6 to you because, quite frankly, I am not convinced that  
7 the answer you have just made is terribly helpful.

8 Let me put this to you: I am now looking at  
9 Section 32 of our Canadian Income Tax Act and I find that  
10 if an individual in Canada, and I am now addressing my-  
11 self to the position of one of your members, if an individual  
12 in Canada has a taxable income of \$4,000.00, his income  
13 tax at current rates is \$610.00 and he pays 22 per cent  
14 tax on his income in excess of \$4,000.00.

15 Now if we assume that as a result of the hypo-  
16 thetical case I put to you before lunch, this particular  
17 individual has his income go up by \$100.00, because he  
18 has received a dividend on the amount in his share  
19 account of \$100.00, his tax would go up by \$22.00 but if  
20 he gets a 20 per cent dividend tax credit in respect of  
21 the additional one hundred dollars his tax goes down by \$20.00,  
22 so that the effect on him is \$2.00.

23 Now if we assume that one of your members has  
24 a smaller income than this, let us assume that his taxable  
25 income was \$1,000.00, then under the present tax schedule  
26 here his tax is \$110.00, plus 14 per cent of the excess  
27 over \$1,000.00. If he finds that you pay that man another  
28 \$100.00, his income tax goes up by 14 per cent, or \$14.00,  
29 but by virtue of the dividend tax credit, he gets a ded-  
30 uction from his total tax of \$20.00, so that he is \$6.00





1 better off than he was before, taxwise.

2 Now if I may request this, I think it might be  
3 helpful to the Commission if you consider: (a), the  
4 effect on the Union itself, (b): the effect on the indiv-  
5 idual at realistic income levels and let us then see  
6 how harmful this would be to the Union and its members,  
7 taken together.

8 The other question I would like to come back  
9 to arises from the remark that you made a moment ago.  
10 You said that this would cause a change in the method of  
11 operation of the Credit Union. Now what do you mean by  
12 that?

13 MR. INGRAM: Mr. Stewart, I think at least in  
14 part I might answer your question. I think in all fair-  
15 ness to Mr. Shipe it does apply to the Canadian scene a  
16 little more than the American one.

17 I think in the first place we have to -- I  
18 think you clearly said this: we are assuming that Credit  
19 Unions have income. We are not prepared to accept this  
20 assumption.

21 MR. STEWART: I quite appreciate that.

22 MR. INGRAM: For all intents and purposes we will  
23 call it income for want of a better name. If it is  
24 construed under the Income Tax Act that Credit Unions  
25 do have income, and if we were to be subject to this kind  
26 of income taxation that you hypothetically stated is  
27 possible, then the methods of change -- some of our  
28 operating procedures would probably have to have a very  
29 close look ataken by the various sectors of the movement.  
30 I can give you one or two examples of what may happen.





1 For example, the share capital structure of the Credit  
2 Union Movement may be converted to deposit capital. In  
3 other words, deposits rather than shares and the resultant  
4 interest on those deposit accounts treated as an operating  
5 expense.

6 I don't want to suggest that this is what we  
7 are going to do at all. This is just in the area of  
8 possibilities after taking a close look at what might  
9 happen. If this should happen, then probably, in conjunction  
10 with that, and this is already happening in many of our  
11 Credit Unions, there is the distinct possibility of lowering  
12 our interest rates on loans to borrowers. Now this is  
13 already in effect in many of our Credit Unions, particularly  
14 those of the rural or community type, but here again I  
15 think we would have to have a very close and long hard  
16 look at this situation because, in our opinion, if this  
17 were to happen, I am talking now in a general selective  
18 sense, there would be some effect I think on the stability  
19 of the individual Credit Union and the stability of the  
20 Movement as a whole because really what would be happen-  
21 ing in a financial way is that we would be reducing our  
22 net savings or, if you want to call it net income. This  
23 would, in turn, reduce the Statutory Reserve which we  
24 are required by law to set aside and which we are quite  
25 happy to do and with which we are in agreement. This  
26 then at least in our opinion would or could very seriously  
27 affect the stability of the Movement. We have other  
28 kinds of operations, such as stabilization funds which  
29 likewise would suffer.

30 Then some of the other safety factors in the





1 wisdom of the Movement we have set up over the years,  
2 I think would either directly or indirectly suffer be-  
3 cause of the possibility of reducing our net taxable in-  
4 come.

5 MR. STEWART: Well then you have mentioned  
6 three things. The first is that you might tend to min-  
7 imize deposits and payment into share accounts and maximize  
8 payments into deposit accounts which would bear interest,  
9 and you then of course as the law now reads, would have to be  
10 sure that the interest paid on deposits was paid pursuant  
11 to a legal obligation to pay interest because otherwise  
12 the interest would not be deductible.

13 MR. INGRAM: Yes.

14 MR. STEWART: From what you have said earlier  
15 there might be a question whether at least some of the  
16 interest that you are paying was paid subject to a legal  
17 obligation. You might also do what I guess is commonly  
18 called pricing out. You might lend your money out at  
19 lower rates so that your spread is narrower.

20 MR. INGRAM: Correct.

21 MR. STEWART: When you get to the question  
22 of stability, I take it that what you have been able to  
23 do up until now at any rate, has been to utilize the net  
24 savings, as you call them, for working capital or other  
25 purposes because these amounts are not actually paid out  
26 in cash. They are simply credited to members accounts and  
27 the funds can be used by the Credit Union for their  
28 own purpose, is that correct?

29 MR. INGRAM: These dividends though are fully  
30 withdrawn on demand, the same as their own shares on





1 deposit would be.

2 MR. STEWART: But until they are withdrawn  
3 they are availble for your purpose and I take it that the  
4 effect of taxation, if any taxation were imposed, might  
5 be that the amount that you had available to finance future  
6 growth might be reduced?

7 MR. INGRAM: Yes, this would be so. It could  
8 be so.

9 MR. STEWART: If the Movement has got to a  
10 state of maturity anyway, as Mr. Shipe was suggesting it  
11 is not growing anyway, is this too important?

12 MR. INGRAM: I think it is extremely important.  
13 I think we have got to continue to grow. We have got,  
14 as we grow, to provide these safeguards and built-in pro-  
15 tective measures that we have accumulated as we have gone  
16 along. I think the very fact that these savings belong  
17 to the members, and that the members in the Credit Union  
18 have a form of co-partnership, I think this is an extrem-  
19 ely important point.

20 MR. STEWART: Do you feel that the imposition  
21 of taxation at the rate that I have been talking about,  
22 21 per cent on \$35,000.00 and less, would that affect the  
23 competitive position of the Credit Union?

24 MR. INGRAM: Well I think probably we would  
25 have to get into the area of defining competition. We  
26 have been through this I think already this morning.  
27 We are not really concerned about competition at all  
28 with any other organization because we think we have got  
29 a unique kind of Movement of our own. We have our own  
30 concepts of what this organization should accomplish,





1 at least in part. We are not too concerned about what  
2 people commonly call competition from other sources.

3 MR. STEWART: From that point of view your  
4 operations would not be adversely affected?

5 MR. INGRAM: No.

6 MR. STEWART: Well now if I can pass from the  
7 tax treatment of a Credit Union, an ordinary Credit  
8 Union for the moment, I would like to discuss with you for  
9 a moment the question of the treatment of Centrals.

10 Now I take it from Page 21 of your submission  
11 that in Canada each, and I am looking now at Paragraph 66,  
12 the third sentence:

13 "In Canada each province has at least  
14 one Central organization."

15 Could you give us an indication how many of these Central  
16 organizations there are in the country as a whole?

17 MR. INGRAM: There are a total of 27 Centrals  
18 in Canada.

19 MR. STEWART: Now you say at the end of Para-  
20 graph 66:

21 "The Central's prime function is to  
22 serve as a Credit Union for Credit  
23 Unions, by accepting the surplus  
24 funds of its member Credit Unions  
25 and loaning these funds to other  
26 members to meet their excess loan de-  
27 mands."

28 I take it that is an accurate description of what a Central  
29 does?

30 MR. INGRAM: Yes sir.





1 MR. STEWART: Now when it loans funds to a  
2 particular Credit Union, what sort of interest rate does  
3 it charge?

4 MR. INGRAM: The actual rate charged would vary  
5 from one Central to another. As an average I would  
6 suggest probably 5 per cent per annum would be a fairly  
7 accurate average unless Mr. Polner has other statistics  
8 that show otherwise. I would assume this is fairly close.

9 MR. STEWART: If we take a particular Central  
10 which, in the course of a particular fiscal period has  
11 borrowed funds from some Credit Union and loaned them  
12 to others at this 5 per cent rate, I take it that following  
13 the end of the period, it determines what savings it has  
14 realized on its operations and then it distributes these  
15 savings, basically to the lending Credit Union. Is that  
16 correct?

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1 MR. INGRAM: Yes.

2 MR. STEWART: Well now, do I gather that the  
3 interest rate payable to a lending Credit Union is not  
4 determined until after the end of that particular period?

5 MR. INGRAM: This amount varies on the differ-  
6 ent provincial and Central's own operations. Many of  
7 them are predetermined as to what interest rate and divid-  
8 end rate they will declare and pay. Others are not declared  
9 until the annual meeting takes place, the same as Credit  
10 Unions.

11 MR. STEWART: Now, the Central borrows from  
12 agencies other than Credit Unions.

13 MR. INGRAM: Yes,

14 MR. STEWART: Do they borrow from co-operatives?

15 MR. INGRAM: Well, chartered banks.

16 MR. STEWART: Any others?

17 MR. INGRAM: This would be the only two other  
18 main sources.

19 MR. STEWART: By the same token they will loan  
20 to people other than Credit Unions?

21 MR. INGRAM: No, except in the case of a few  
22 of our Centrals who also include as members co-operatives  
23 and loans have been made available to them on occasion.

24 MR. STEWART: Well now, the members of a  
25 Central are incorporations?

26 MR. INGRAM: Well, here again I probably should  
27 clarify a yes answer to that. On some few occasions in-  
28 dividual Credit Union members are also eligible for  
29 Central Credit Union rates. I am thinking, for example,  
30 of mortgage loans to individuals.





1 MR. STEWART: Is this common?

2 MR. INGRAM: No, it is not common.

3 MR. STEWART: Basically the members of Centrals  
4 are corporations?

5 MR. INGRAM: All corporations.

6 MR. STEWART: And basically the people they  
7 deal with are corporations?

8 MR. INGRAM: Right.

9 MR. STEWART: Now, the common bond which unite  
10 the members of a Central is the interest in the Credit  
11 Union Movement or the co-operative movement or either one  
12 of them.

13 MR. INGRAM: Either one or both.

14 MR. STEWART: Do you suggest that these  
15 Centrals carry on business of such a type that they should  
16 be exempt from income tax?

17 MR. INGRAM: Yes, I think the findings of the  
18 1945 Commission and the Legislation under which we are  
19 operating and the Income Tax Act itself very clearly  
20 define the fact that Federations of Credit Unions should  
21 be treated exactly the same way as Credit Unions them-  
22 selves.

23 MR. STEWART: Mr. Ingram, when we get to the  
24 Central are we not getting some distance from the small  
25 man who the Credit Union was designed basically to serve  
26 and who needs financial counsel and so on? Are we not  
27 dealing with large scale organizations who deal  
28 in substantial sums of money?

29 MR. INGRAM: This may be true, but in my  
30 opinion this doesn't change the concept of what the





1 Central is designed to do. The Central indirectly or  
2 directly makes the same service available to individual  
3 Credit Union members. They simply use the Credit Union  
4 itself as the vehicle to make this possible.

5 MR. STEWART: On top of the Centrals, or per-  
6 haps the expression "on the top" isn't appropriate, some  
7 of these Centrals, I take it, are members of the Canadian  
8 Co-operative Credit Society.

9 MR. INGRAM: That is right.

10 MR. STEWART: We will be dealing with them  
11 later in the day. The Canadian Co-operative Credit Society,  
12 in fact, is a Credit Union of Central's and some Co-  
13 operatives.

14 MR. INGRAM: Right.

15 MR. STEWART: In your thinking does the Canad-  
16 ian Co-operative Credit Society still qualify under the  
17 exemptions for Credit Unions?

18 MR. INGRAM: Yes, I am of the opinion that  
19 they should qualify, yes.

20 MR. STEWART: Now, then as far as taxation  
21 is concerned, I take it that as matters now stand the  
22 individual member of the Credit Union must bring into  
23 income for tax purposes both the dividends which are paid  
24 on ~~his~~ shares and the interest which is paid on his  
25 deposits.

26 MR. INGRAM: Right.

27 MR. STEWART: If you turn to Page 34 of your  
28 submission there is a paragraph beginning with the  
29 words Bill F-649 and the last sentence of that paragraph  
30 seems to indicate that in the United States a member of





1 a Federal Credit Union is taxable upon dividends but  
2 the Credit Union itself is responsible for collecting  
3 the tax on the dividends. ~~Is that accurate?~~

4 MR. WEINBERG: No, that is not so. Actually  
5 there was no responsibility for the members' dividends  
6 until very recently when the tax bill of 1962 was passed  
7 that Mr. Shipe alluded to a little while ago, whereby  
8 all payers of dividends and interest must now report  
9 on so-called Form 1099 to the Internal Revenue Service  
10 all dividends or interest of \$10.00 or more. There was  
11 no obligation and never was any obligation on their part  
12 to collect in any fashion.

13 MR. STEWART: I see that I was misreading this.  
14 It actually says that the law prohibits the requirement  
15 that Credit Unions collect the tax. Now, suppose in  
16 practice you have two members of the Credit Union, one  
17 has a balance in his share account of, let us say, \$1  
18 thousand dollars and the other has a balance in his share  
19 account of \$10.00 and each of them wants to borrow \$500.00  
20 from the Credit Union. Does each pay the same rate  
21 of interest on the loan?

22 MR. INGRAM: In most cases they would, yes.

23 MR. STEWART: You say in most cases?

24 MR. INGRAM: Yes.

25 MR. STEWART: So a person with a large balance  
26 doesn't get a more favourable borrowing rate?

27 MR. INGRAM: There are isolated instances  
28 where Credit Unions will use this technique, if you will,  
29 of determining interest rates on loans, but in a general  
30 sense the Movement is of the opinion that there should





1 not be any difference whatsoever with respect to interest  
2 rates in borrowing money.

3 MR. STEWART: Now, when credit is extended  
4 to a particular member is this done on his credit alone  
5 or does the Union sometimes ask for guarantees or endorse-  
6 ments by non members?

7 MR. INGRAM: Where the law provides security  
8 or collateral of some type must be taken, depending on  
9 the size of the loan, where security must be taken under  
10 the law then your Credit Committee may require a guarantor  
11 or co-signer of notes of borrowing members. This is  
12 common practice in some areas and not so in others.

13 MR. STEWART: If the law doesn't require the  
14 taking of security are you implying the Credit Union  
15 wouldn't require security?

16 MR. INGRAM: Not necessarily, no. I think  
17 each case is dealt with on its own merits, so far as the  
18 granting of credit is concerned. We have had examples  
19 in the past where a borrowing member who only wants  
20 \$50.00 or \$60.00 would have to have security because of  
21 circumstances and on the other hand there are many cases  
22 of substantial loans being made for substantial amounts  
23 of money with the very barest of security. Our Movement  
24 has been and still is that a person's character is of  
25 much more importance than is actual tangible security.

26 MR. STEWART: If a member has a balance in  
27 his share account and in his deposit account and he  
28 borrows from the Union, the Credit Union, is the balance  
29 in his two accounts, in his share account and his deposit  
30 account, are they automatically taken as collateral for





1 the repayment of the loan?

2 MR. INGRAM: Under most loans this is so.

3 MR. STEWART: In this country I take it that  
4 if the Credit Union has office premises or if it owns  
5 the land through which it carries on its operations it  
6 is subject to normal municipal property tax and so on?

7 MR. INGRAM: Yes.

8 MR. STEWART: So far as the members are con-  
9 cerned, the balance of their accounts would be treated  
10 as assets for succession duty purposes?

11 MR. INGRAM: Yes, that is right.

12 MR. STEWART: What I am wondering, Mr. Ingram,  
13 is whether the Credit Union objects to taxation on  
14 principle or whether it is simply income tax it is ob-  
15 jecting to?

16 MR. INGRAM: I think you could probably safely  
17 say, and I think ~~we~~ have said this on many occasions  
18 that the Credit Union Movement is fully prepared and  
19 anxious to co-operate in all ways and means necessary  
20 and proper in the field of taxation and we have always  
21 suggested that we pay our proper share in those taxes  
22 which we feel are appropriate and necessary, ~~are~~ valid  
23 taxes, ~~that~~ the Credit Union should be interested in and  
24 should be prepared to pay.

25 THE CHAIRMAN: Might I pursue that for a  
26 moment. These gentlemen have in their submission class-  
27 ified themselves with, I think, ~~religious~~ organizations  
28 and charities which I find are normally tax exempt in  
29 the municipality. Why should you be prepared to meet your  
30 ~~municipal tax~~ as opposed to the other organizations which





1 I have just referred to which are tax exempt whereas  
2 you stress the nature of your organization as being such  
3 that it should be classified with these organizations  
4 and exempt from tax. It seems to me if you were prepared  
5 to pay your municipal tax that you should be prepared  
6 to pay Federal tax. The matter of measurement of that  
7 tax comes afterwards. The principle is there. I think  
8 you say you are not prepared to accept the principle.

9 MR. GLEN: Mr. Chairman, I may be treading on  
10 dangerous ground, but this area of discussion interests  
11 me, if I may use the word again, the philosophical  
12 aspect of the Credit Union. It is simply this, in the  
13 years I have been associated with the Credit Union Move-  
14 ment my main objective has been to try and build greater  
15 sense of responsibility among people. The people with  
16 whom I associate in Credit Union activities, we don't  
17 like the concept of corporate taxation because of its  
18 hidden nature. We try to get our members to become aware  
19 of their responsibilities, and they have responsibilities  
20 we will say at the community level and very often have  
21 an area of determination whether tax is imposed on a  
22 municipal basis and a by-law has to be taken. They can  
23 assess the value of the tax to themselves. And mind you  
24 this makes them far more responsible citizens. Corporate  
25 tax is something that is taxable on the level where there  
26 is no determination, if you follow me.

27 THE CHAIRMAN: Yes, indeed I think I follow  
28 you very clearly. You are not quarrelling with the  
29 principle of your organization sharing some of the costs  
30 of the Federal Government. You are quarrelling with





1 the method by which it is allocated to you.

2 MR. GLEN: This would be our position. I  
3 think our individual members who are the ones who should  
4 share this load. If they don't like the application  
5 of the tax I would hope they would have machinery by  
6 which they can express their dislike or approval. In  
7 corporate tax and I don't care whether it is Credit  
8 Unions or whatever it may be, it is the hidden aspect  
9 of the tax that in our views, the people with whom I am  
10 associated, this isn't a tax which builds responsible  
11 citizens.

12 THE CHAIRMAN: Thank you Mr. Glen.

13 MR. STEWART: I said at some point this  
14 morning that I thought some of you, at any rate, would  
15 also be here at the time we deal with the next brief  
16 which is that of the Canadian Co-operative Credit  
17 Society. I am wondering whether that is true? Are you  
18 all or are most of you going to be on the panel then?

19 MR. GLEN: No.

20 MR. STEWART: Perhaps I had better come back  
21 to the question which Mr. Gauley raised this morning,  
22 the fact these Credit Unions should not be regarded as  
23 anything more than agencies for their members and carrying  
24 on their activities with the results, I take it, that the  
25 income, if there is income of the Credit Unions should  
26 not be taxed in its hands, but should be taxed in the  
27 hands of its members. Perhaps I could put this to you  
28 in that connection: I think it has been conceded that  
29 the Credit Union is a separate legal entity. It is a  
30 corporation. It has been conceded I think that the funds





1 it acquires and loans out are the funds of the Credit  
2 Union itself, that they belong to the Credit Union not  
3 to the members. I would take it that if a particular  
4 Credit Union makes a particular loan to a member, a  
5 person who is entitled to sue on that loan to recover,  
6 if it should be required is the Union and not the  
7 individual member. I also take it that it is the  
8 Credit Union and not the individual members who are  
9 subject to the obligations and liabilities of the Credit  
10 Union.

11 Now, Mr. Gauley, if these propositions of  
12 mine are correct how can it be said a Credit Union is  
13 not acting as a principal on its own account? How  
14 can it be said it is simply an agent for what may be  
15 a very large number of principals?

16 MR. GAULEY: Mr. Stewart, all of the things  
17 you have said, I think apply, have applied in these  
18 instances where corporate structures or legal  
19 entities were used to accomplish the purposes of  
20 members. For instance, the first time that I recall  
21 that this question came up in Canada was the Saskatchewan  
22 Wheat Producers case which the Supreme Court considered  
23 in 1932.

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1 MR. GAULEY: And subsequent to that, the  
2 Stanley Mutual Fire Insurance Company, which was a  
3 Supreme Court decision in 1953 recognized the fact that  
4 the mere existence of a separate legal entity which  
5 carried with it legal title to whatever commodity was  
6 being handled -- in that particular instance, of course,  
7 it was an insurance company -- but this technique, this  
8 was also referred to by Mr. Justice Thorson in The  
9 Horse Co-operative Marketing Association and subsequent  
10 to that the Manitoba Dairy and Poultry Co-operative  
11 Limited, and the Saskatchewan Wheat Producers Limited  
12 where he said that this was machinery or, in one case  
13 I think a conduit pipe whereby a group of people with  
14 common interest -- in most of these instances they were  
15 people that banded together to market their products.--  
16 in one instance it is wheat, in another instance it was  
17 horses which were canned, of course.

18 Another instance it was dairy products but  
19 the title, the legal title went to the legal entity.  
20 They have to have fixed assets in the sense, and reserves,  
21 but these eventually go back to the members and the  
22 mere fact that there were things that you mentioned,  
23 I agree they do in fact exist, did not thereby follow  
24 that the difference, the savings or the surplus that  
25 may result at the end of the year had a quality of  
26 income. In fact, the courts have consistently held  
27 that it is not income. Granted here the commodity is  
28 money and there are some variations in this principle  
29 when you have a number of persons who band together  
30 and deal with these at one time qua depositors, qua





1 borrowers and I realize because the commodity is money  
2 instead of wheat or butter, whatever it may be, that  
3 there are some differences, but it is our position that  
4 essentially this surplus or saving, if there is any at  
5 the end of the year, does not have the quality of income.

6 MR. STEWART: Then I think you will perhaps  
7 agree Mr. Gauley, that the cases that you refer to,  
8 the legal decisions that you referred to, insofar as they  
9 relate to co-operatives, were cases in which the court  
10 found on the facts that there was or that the co-operative  
11 was what I think is called a strict agency co-operative;  
12 that it did not act as a principal in relation to its  
13 activities?

14 MR. GAULEY: Certainly in all of the cases,  
15 except the Stanley Fire Insurance case, which was in-  
16 surance, it was a marketing aspect of the co-operatives  
17 but, nevertheless, it still held first of all it  
18 was a legal entity. I mean it had legal title to these  
19 things. It had to dispose of the goods and in one  
20 instance they manufactured. They bought horses from  
21 their members and sold canned horse meat. They had  
22 to have title to sell it and deal in these assets and  
23 eventually account back to the members. Granted that  
24 there are differences, but in the Credit Union where you  
25 have a group of people banded together to accomplish  
26 the purpose such as has been discussed here, any savings  
27 that result or any surplus at the end of the year does  
28 not have the characteristic of income as defined in  
29 those cases.

30 MR. STEWART: You go so far as to suggest





1 that this principle applies where you have ten thousand  
2 members of the staff of a particular company who engage  
3 in extensive borrowing or the Credit Union which engages  
4 in quite extensive borrowing and lending operations?

5 MR. GAULEY: Well it is admitted that the  
6 size does not change the principle or the characteristic  
7 of the savings, if there is any, at the end of the year.  
8 There may not be.

9 MR. STEWART: So that on this basis one could  
10 have a Credit Union, one big Credit Union for the  
11 employees, for example, of General Motors in the United  
12 States which no doubt numbers several hundred thousand  
13 people, and that one Credit Union is acting as agent  
14 for each one of these several hundred thousand in every-  
15 thing it does?

16 MR. GAULEY: It may not be practicable or  
17 feasible to have one of that size, but I would say in  
18 theory that the size would not matter.

19 MR. STEWART: Mr. Chairman, I think that  
20 ends my questions.

21 THE CHAIRMAN: Thank you Mr. Stewart.

22 COMMISSIONER BEAUVAIS: I just have one  
23 question on Page 20 of the brief, Article 65. You  
24 mentioned that in at least two provinces, dissolution  
25 regulations provide that reserves may not be distributed  
26 to members on the dissolution of the Credit Union,  
27 but must be used in the community for general welfare  
28 purposes as prescribed by provincial regulations.  
29 Could you give me the names of those provinces?

30 MR. INGRAM: This would be Quebec and Sask-





1 atchewan.

2 COMMISSIONER BEAUVAIS: Quebec for Credit  
3 Unions also? I know that is correct for Caisse Populaire  
4 but that applies to Credit Unions also?

5 MR. INGRAM: Both under the same regulations,  
6 yes.

7 THE CHAIRMAN: Any questions?

8 COMMISSIONER GRANT: I have a few questions.  
9 The reserve requirement is based upon 20 per cent of  
10 net earnings?

11 MR. INGRAM: Yes.

12 COMMISSIONER GRANT: It might be more than that  
13 but under provincial legislation it would not be less?

14 MR. INGRAM: Right.

15 COMMISSIONER GRANT: Now reserves are referred  
16 to in the brief as guaranteed funds. Are the terms  
17 synonymous?

18 MR. INGRAM: Yes.

19 COMMISSIONER GRANT: What is the nature of  
20 the term "guarantee"? Why does it carry that name?

21 MR. INGRAM: I think as we have very briefly  
22 explained, that kind of reserve is the common term applied  
23 to the statutory reserves which can only be used for  
24 writing off any bad debts or losses that the Credit  
25 Union may incur from time to time.

26 COMMISSIONER GRANT: I was thinking that per-  
27 haps it referred to the fact that that 20 per cent, that  
28 reserve requirement is guaranteed by the deposits of  
29 the members and that it will never be less than its  
30 required statutory amount. In other words, should you





1 invest that 20 per cent in some security which turned  
2 out to be of little value, that reserve would not be  
3 reduced by virtue of that loan?

4 MR. INGRAM: That is right.

5 COMMISSIONER GRANT: In other words, the  
6 deposits of the members are the guarantees?

7 MR. INGRAM: Yes.

8 COMMISSIONER GRANT: Now in investing your  
9 reserves, does that come within the jurisdiction or  
10 the purview of the local union or is it done by the  
11 Central office?

12 MR. INGRAM: No, it is within the jurisdiction  
13 of the individual Credit Union.

14 COMMISSIONER GRANT: What is carried out in  
15 actual practice? Does each Union look after its own  
16 investments?

17 MR. INGRAM: Yes. The investments may be  
18 completely or partially in the Central to which they  
19 belong but their investment policy is one which is dealt  
20 with exclusively by each individual Credit Union.

21 COMMISSIONER GRANT: I suppose that the advice  
22 of the Central is available to the Union?

23 MR. INGRAM: Yes.

24 COMMISSIONER GRANT: But the Union annually  
25 will decide on the amount of its net earnings and the  
26 amount that should be allocated to reserve?

27 MR. INGRAM: Yes.

28 COMMISSIONER GRANT: In the investments which  
29 are carried by the Union, I notice that you have something  
30 over \$1 hundred million invested in real estate loans.





1 I think that is shown on Page 34 of the year book.

2 MR. INGRAM: I think this would be essentially  
3 in Quebec Mr. Grant.

4 COMMISSIONER GRANT: Essentially in Saskatchewan  
5 according to the breakdown of the first column at the  
6 bottom of the page. In 1962 the three provinces that ca-  
7 rried the largest investment are Saskatchewan, Ontario  
8 and Manitoba, that is in real estate loans. That could  
9 be mortgages. It could be home-improvement loans.

10 MR. INGRAM: Secured by first mortgages, that  
11 is right.

12 COMMISSIONER GRANT: Now that does not take  
13 into consideration the Quebec Caisse Populaire which,  
14 as it was brought out earlier, has gone into mortgages  
15 quite heavily.

16 MR. INGRAM: That is right.

17 COMMISSIONER GRANT: Of that \$105 million  
18 invested now, or in 1962, secured by mortgages, would  
19 you have any information that you could give the  
20 Commission on how that is taken? What proportion would  
21 be in home loans and what proportion would be in comm-  
22 ercial loans? When I say "commercial loans" I am  
23 referring to commercial establishments such as, for  
24 instance, a consumer market or feed mills or something  
25 of that sort. Would you have a breakdown on that?

26 MR. INGRAM: I don't think we have at the  
27 moment Mr. Grant. We could probably get this for you.  
28 Dr. Polner has some information on that.

29 DR. POLNER: If I may answer the question to  
30 the best of my memory, all the provinces, the provinces





1 of Manitoba and Saskatchewan do maintain annual records  
2 of the reasons for which loans are made. Now I remember  
3 more about Manitoba because I am in contact there. Using  
4 again the data in the year book, roughly \$20 million is  
5 out in real estate loans, I believe, without cutting off  
6 what is a real estate loan on a farm, but the majority  
7 of these are taken on farms. Now I would not know how  
8 a definition would be taken, or how you would spread a  
9 mortgage on a home and a farm. That is my memory sir.

10 COMMISSIONER GRANT: They are to members for  
11 their use in ~~the~~ farming or in building a house and  
12 living in it, a family dwelling in many respects, and  
13 owner occupied?

14 DR. POLNER: This would be my memory of the  
15 Manitoba figures. We can perhaps get hold of an annual  
16 year book from the Provincial Registrar in Manitoba for  
17 you and we can clarify it.

18 COMMISSIONER GRANT: Would you have any know-  
19 ledge as to the amortization basis of those mortgages?  
20 Would they be over a period of 15 years? 20 years?

21 MR. INGRAM: They would vary in different  
22 provinces. Generally speaking 5 or 10 year amortization  
23 would ~~cover~~ most of them.

24 COMMISSIONER GRANT: They would be competitive,  
25 in other words, with other lending institutions would  
26 they?

27 MR. INGRAM: Yes, I would say so.

28 COMMISSIONER GRANT: And also with respect  
29 to interest rates?

30 MR. INGRAM: Yes.





1 COMMISSIONER GRANT: And repayment?

2 MR. INGRAM: Yes.

3 COMMISSIONER GRANT: Now last year in the  
4 year book reserves were increased by a total of 14.6  
5 per cent. Reserves in actual dollar amounts were in-  
6 creased by \$9 million 551 thousand. Now assuming that  
7 that was on the basis of 20 per cent, then would it be  
8 correct to say that the net earnings of the co-operative  
9 movement in Canada last year would be five times the  
10 amount of the reserve?

11 MR. INGRAM: Not necessarily because there are  
12 some write-offs involved in this figure. This would be  
13 the net increase.

14 COMMISSIONER GRANT: Do you arrive at your  
15 reserve figure before taking off your write-offs?

16 MR. INGRAM: Yes.

17 COMMISSIONER GRANT: In other words, your  
18 reserve figure is arrived at after you credit the members'  
19 account the dividend on share capital and refund of  
20 loan interest?

21 MR. INGRAM: No. The 20 per cent is based  
22 on the net earnings before dividends and interest rebates.

23 COMMISSIONER GRANT: Is it?

24 MR. INGRAM: Yes.

25 COMMISSIONER GRANT: Thank you. But after  
26 any operating expenses?

27 MR. INGRAM: That is right.

28 COMMISSIONER GRANT: But before charging your  
29 accounts or crediting your accounts with dividends or  
30 with interest refunds?





1 MR. INGRAM: That is correct.

2 COMMISSIONER GRANT: The expansion which is  
3 going on at the present time when, for instance, you  
4 increased your savings by 10 per cent in 1962 over 1961,  
5 do you find that expansion is taking place more to-day  
6 in your urban centres than in the rural centres?

7 MR. INGRAM: If we are going to use percent-  
8 ages as a criterion, I would suggest that the growth  
9 is approximately the same in both centres in absolute  
10 terms. In terms of dollars and cents, the most sub-  
11 stantial part of the increase would be in urban centres  
12 rather than rural.

13 COMMISSIONER GRANT: When you open a Credit  
14 Union say in a plant, you usually have the full co-operation  
15 of the management of the plant?

16 MR. INGRAM: Wherever possible, this is so.

17 COMMISSIONER GRANT: I think you have pointed  
18 out that they welcomed this sort of thing because it gives  
19 their employees a better standing and greater contentment,  
20 and so on. I suppose there are occasions on which  
21 facilities are placed at your disposal and your costs  
22 are kept down on that account?

23 MR. INGRAM: This is true.

24 COMMISSIONER GRANT: I think you say in your  
25 brief that about 65 per cent of the cash flow, Page 21  
26 of the brief says that is due to internal investment.  
27 Now that would be inter-provincial. Do your funds flow  
28 within the corporation type of Credit Union as from  
29 one province to another?

30 MR. INGRAM: What we were referring to here,





1 Mr. Grant, was the fact that about 65 per cent of the  
2 funds of Credit Unions find their way either into their  
3 provincial Central or inter-provincially to the Canadian  
4 Co-operative Union Society. This is the internal flow  
5 that we are referring to here.

6 COMMISSIONER GRANT: Therefore, about 35 per  
7 cent would be placed by the local Unions themselves by  
8 way of loans to their own members?

9 MR. INGRAM: Or by the provincial Centrals  
10 in either Government bonds, for example. This is the  
11 kind of investment which would account for the 35  
12 per cent.

13 COMMISSIONER GRANT: Thank you. Mr. Chairman  
14 that is all.

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THE CHAIRMAN: There is just one point I am not absolutely clear on. You have pointed out that legal requirements are that the reserves are set at 20 per cent of the savings before certain adjustments. In reply to Mr. Grant you said what is set aside may be more than 20 per cent yet I find in paragraph 57 that earnings are returned to the members at the end of each fiscal year after the taxes and reserves have been set aside. If you are returning all the earnings after the statutory and other reserves I would think that they wouldn't go above 20 per cent. I suppose this 20 per cent ~~applies~~ <sup>plus</sup> to other reserves. I don't know much about it, after you have set aside the 20 per cent and whatever other reserves are decided upon the rest is distributed totally; is that correct?

MR. INGRAM: That is essentially correct, Mr. Carter.

COMMISSIONER GRANT: I have one more question, Mr. Chairman. Mr. Ingram, if you would please look at the year book again on page 1, and will you give me the figures as to how the total assets, how that figure is arrived at? Your savings are \$1 billion 531 million dollars and reserves are \$67 million. That leaves \$93 million, roughly \$93 million. If reserves are invested -- they might be invested in buildings and equipment and so on -- where would the other \$93 million be?

MR. INGRAM: These reserves that are shown here are the statutory reserves. There are other reserves that we referred to earlier that are not included in the \$67 million.





1 THE CHAIRMAN: Reserves and savings are on  
2 the liability side and the assets are on the assets side  
3 and the assets would be distributed in all kinds of  
4 things, I would presume, mainly loans to members though.

5 MR. INGRAM: That is correct.

6 THE CHAIRMAN: Thank you very much indeed.  
7 I think we fully understand it now. We have no more  
8 questions to put to you. Mr. Stewart, you are through,  
9 are you?

10 MR. STEWART: Yes.

11 THE CHAIRMAN: Have you anything you would  
12 like to say to us?

13 MR. GLEN: No, I haven't. You say that you  
14 understand. You do better than we do.

15 May I on behalf of our delegates say thank  
16 you to the Commission and to counsel. We realize that  
17 you have a very ~~oneros~~ job. It is a responsible job.  
18 It is a job I think any citizen in our country would  
19 wish you well in, and naturally we hope that whatever  
20 your determinations may be and whatever your recommend-  
21 ations may be that you will recognize the contributions  
22 that our type of organization is making to the well-  
23 being of all Canadians, and that we may continue to do  
24 that for the benefit of our fellow men. Thank you very  
25 much.

26 THE CHAIRMAN: May I in closing say how  
27 much we appreciate what you have done for us to-day in  
28 this submission and submitting yourselves to the questions  
29 which we have thrown at you. We have done this for  
30 better understanding, not because we wish in any way





1 to dent the position set forward so clearly. We must  
2 clearly understand the reasons for it. May I say we are  
3 all seized with the significance, the good and the valuable  
4 contribution to Canada of the Credit Union Movement.  
5 As I said when we started that isn't on trial. We  
6 fully understand it. We are concerned about taxation  
7 and we will continue to ponder the taxation. Thank you  
8 very much indeed.

9 Mr. Secretary, I guess we are ready to go.

10 THE SECRETARY: Mr. Chairman, the second brief  
11 this afternoon is being presented by the Canadian Co-  
12 operative Credit Society Limited. Mr. A. W. Wagar  
13 is President of the Society. He is here to speak to the  
14 brief together with his colleagues. He will introduce  
15 his colleagues to you. I would now enter the brief and  
16 the appendices into the record as Exhibit 258.

17 ---EXHIBIT NO. 258: Submission and appendices of  
18 Canadian Co-operative  
19 Credit Society Limited.

20 SUBMISSION OF  
21 THE CANADIAN CO-OPERATIVE CREDIT SOCIETY  
22 LIMITED

23 Appearances: Mr. ~~A. W. Wagar~~ Wagar

24 Mr. D. E. Stewart

25 Mr. J. R. Robinson

26 Mr. E. Henschel

27 Mr. L. R. Tendler

28 Mr. J. M. Best

29 Mr. D. E. Gauley  
30





1 THE CHAIRMAN: Thank you, Mr. Secretary.

2 Good day, Mr. Wagar. I am sorry we are so late in  
3 getting to this. You were in the room so you know exact-  
4 ly why. I don't need to explain it, but I still am sorry.  
5 We will be as smart as we are able to with yourselves  
6 because you undoubtedly have planes to catch. Would you  
7 care to introduce your delegates to us.

8 MR. WAGAR: Thank you, Mr. Chairman. I would  
9 like to express our appreciation for having an opportunity  
10 to be heard before you. Our main purpose in coming is  
11 to answer any questions you would like to direct to  
12 us. We are fortunate in that we have in our group the  
13 managers of each of the provincial Centrals that are in-  
14 cluded in our membership. First of all I will introduce  
15 to you Mr. D. E. Stewart. He is a director of the  
16 Canadian Co-operative Credit Society and director of  
17 the Saskatchewan Co-operative Society.

18 THE CHAIRMAN: Which is Mr. Stewart?

19 MR. WAGAR: Immediately on my left. Mr.  
20 Gauley is our solicitor with the firm of Francis, Gauley  
21 and Dierker in Saskatchewan. He is second from my  
22 right.

23 The others I will introduce from left to  
24 right. At my far left is Mr. J. R. Robinson who is  
25 a director of the Canadian Co-operative Credit Society  
26 and a treasurer-manager of the B.C. Central Credit Union.

27 Next to Mr. Robinson is Mr. E. Henschel who is  
28 as director of the Canadian Co-operative Society and  
29 also treasurer-manager of the Co-operative Credit  
30 Society of Manitoba.





1 On my right is Mr. L. R. Tendler, Director of  
2 the Canadian Co-operative Credit Society and secretary-  
3 manager of the Saskatchewan Coeoperative Credit Society.

4 At the end of the table on my right is Mr.  
5 J. M. Best who is a director of the Canadian Co-operative  
6 Credit Society and also general manager of the Ontario  
7 Co-operative Credit Society.

8 I have nothing in particular to add to our  
9 brief. I would like to make sure we all have made one  
10 correction that is necessary, and that is an error in  
11 our Section 15 on Page 10. The reference to the case  
12 of Bear and others versus Bromley should be 1852 (21) L.J.  
13 J. Q. B. 354 and not 1952 L.J. Q.B. 21 as it now is.

14 In directing questions with respect to  
15 operations of the various provincial Centrals we would  
16 like you, in some instances, at least, to direct the  
17 questions to the managers who are familiar with the  
18 operations in their particular area.

19 THE CHAIRMAN: Thank you. We will ask Mr.  
20 Stewart to lead us in our examination. I think, Mr.  
21 Stewart, you might commence now.

22 MR. STEWART: Thank you, Mr. Chairman.  
23 Gentlemen, while we are beginning you may be the ben-  
24 eficiaries of the fact we just had a long hearing  
25 because I think it will permit me to curtail a good  
26 deal of the questions I might otherwise have wished  
27 to ask you. As I understand it now the Canadian Co-  
28 operative Credit Society acts as a Credit Union for its  
29 eleven members; is that correct?

30 MR. WAGAR: That is correct, for provincial





1 Centrals and the seven co-operative organizations.

2 MR. STEWART: We did have a few questions this  
3 morning about provincial Centrals, but perhaps I could  
4 put one or two others to you now.

5 We understand that the provincial Central  
6 obtains funds from its members and loans funds to Credit  
7 Unions or possibly co-operatives or both. The question  
8 arises as to how the provincial Central finances its  
9 activities. Let us suppose that a new one was starting  
10 and that it was formed by a number of Credit Unions.  
11 Do they take up shares or deposits into share accounts?  
12 Just how does this newly formed organization get  
13 off the ground?

14 MR. WAGAR: As a general answer I think it  
15 could be answered this way: To begin with a provincial  
16 Central doesn't decide on its own to organize and  
17 get off the ground. The decision to organize the  
18 provincial Central is made by the Credit Union and/or  
19 co-operatives in the area and they decide to organize  
20 their central Credit Union much the same as the indiv-  
21 idual members of the community or of the operation  
22 where they are employees decide to organize their Credit  
23 Union. The funds in any organization, of the Credit  
24 Unions and/or co-operatives put money on deposit and  
25 there is a minimum requirement as far as shares, usually  
26 in the legislation. This is the source from which they  
27 get their funds.

28 MR. STEWART: To the extent they require  
29 working capital they simply loan out less than they have  
30 on deposits.





1 MR. WAGAR: The Credit Union?

2 MR. STEWART: The Central?

3 MR. WAGAR: The Central loans out less than  
4 it has on deposit.

5 MR. STEWART: To the extent it requires working  
6 capital?

7 MR. WAGAR: Yes, that would be true.

8 MR. STEWART: Then when it has carried on  
9 operations for the first year does it proceed to es-  
10 tablish these reserves in the same way the ground level  
11 Credit Union does? Is it subject to the same rules as  
12 regards reserves?

13 MR. WAGAR: They are pretty well the same.  
14 They have their guarantee fund by legislation, Canadian  
15 Co-operative Credit Society, 20 per cent guaranteed  
16 fund, 20 per cent of the net savings of the Canadian  
17 Co-operative Credit Society should be put into the  
18 guaranteed fund.

19 MR. STEWART: So the Canadian Co-operative  
20 Credit Society is subject in this respect to the same  
21 rules as the Centrals?

22 MR. WAGAR: To that extent.

23 MR. STEWART: Well now, let us consider the  
24 operations of the Canadian Co-operative Credit Society.  
25 From what you have said I take it it really originated  
26 at the instance of its members?

27 MR. WAGAR: That is right. The present  
28 membership -- there are some who were original incorp-  
29 orators that are not now members, but the four Centrals  
30 still are in and the co-operatives that are now members





1 were the original organizers.

2 MR. STEWART: When the Canadian Co-operative  
3 Credit Society was formed some of its members would  
4 make deposits with it. Would they make these deposits -  
5 at a predetermined rate of interest?

6 MR. WAGAR: When it was first formed?

7 MR. STEWART: Yes.

8 MR. WAGAR: The money that was deposited in  
9 the first instance, I believe, was deposited in share  
10 capital which wouldn't be at a predetermined rate of  
11 interest.

12 MR. STEWART: Well then, the current  
13 operations, the Society presumably has monies on deposit  
14 with it now? The Soci

15 MR. WAGAR: That is right.

16 MR. STEWART: As those monies have been de-  
17 posited has it been at a predetermined rate of interest?

18 MR. WAGAR: Yes, it has.

19 MR. STEWART: Could you tell us what your  
20 current rate is?

21 MR. WAGAR:  $5\frac{1}{4}$  -- no, 5 per cent.

22 MR. STEWART: Now, when you loan money out  
23 at the present time to your members at what rate do  
24 you loan it out?

25 MR. WAGAR:  $5\frac{1}{2}$  per cent, is that right?

26 MR. ROBINSON: Yes.

27 MR. STEWART: So that your gross profit of  
28 the Credit Society is one half of 1 per cent?

29 MR. WAGAR: That is right, at the present  
30 time.





1 MR. STEWART: Out of this you look after  
2 whatever your expenses are, I take it?

3 MR. WAGAR: Yes, that is correct.

4 MR. STEWART: Then if at the end of the current  
5 period you have enough savings you make the appropriations  
6 to this reserve fund, if any is required?

7 MR. WAGAR: Yes, I think I would like to  
8 comment though in this respect, the members of the  
9 Canadian Co-operative Credit Society have quite a say  
10 in what rate of return they get on their deposits, and  
11 also have a fair amount of influence on what rate would  
12 be charged on the loans, so from this point of view  
13 it seems to me that the members themselves set their  
14 own rate of interest, whether it be for deposits or  
15 loans, consistent with being people who continue the  
16 operations of the Canadian Central.

17 MR. STEWART: This, I take it, is due in part,  
18 at least, to the fact that you have a small number of  
19 members and a fairly cohesive group?

20 MR. WAGAR: That is correct. I think it  
21 also extends to the provincial Centrals just the same --  
22 the facility is there with the members themselves at  
23 annual meetings and so on setting their rates so, in  
24 effect, determining the rates they are charged.

25 MR. STEWART: If you get to the annual meeting  
26 stage the members of local Credit Unions have a voice  
27 in that too, I take it?

28 MR. WAGAR: That is correct.

29 MR. STEWART: But at the level at which you  
30 operate you are dealing with somewhat more sophisticated





1 and large scale operators than they are at the ground  
2 level. Wouldn't that be true?

3 MR. WAGAR: Yes, I presume so.

4 MR. STEWART: Do you then find that the monies  
5 which your members are prepared to make available to  
6 you are inadequate for your requirements? What I am  
7 getting at do you borrow from outside your own member-  
8 ship?

9 MR. WAGAR: No, we haven't to date.

10 MR. STEWART: Is there anything to prevent  
11 that?

12 MR. WAGAR: Well, legislation prevents you  
13 from borrowing to a certain extent from banks and banks  
14 are the only place we have authority to borrow from.

15 MR. D. E. STEWART: We have permissive leg-  
16 islation that allows us to borrow from banks.

17 MR. STEWART: Up to a certain level?

18 MR. D. E. STEWART: Certain level, with  
19 certain reserves.

20 MR. STEWART: But you never so far had occasion  
21 to borrow from banks?

22 MR. D. E. STEWART: No.

23 THE CHAIRMAN: This would be a lot easier  
24 for us to follow if we had a balance sheet of the  
25 Canadian Co-operative Credit Society which I don't think  
26 was included with this submission. I don't think we  
27 have one at all. I assume they are published.

28 MR. WAGAR: Was it not in the submission?  
29 It was our intention, Mr. Chairman, that this would be  
30 included with our submission. It appears we haven't





1 provided that.

2 MR. ROBINSON: I have one copy here.

3 THE CHAIRMAN: Thank you. Mr. Stewart.

4 MR. STEWART: Well then, have you been in the  
5 position that the funds you had on deposit exceeded  
6 the requirements of your members for funds with the  
7 result that you had to go outside your membership to  
8 place these monies?

9 MR. WAGAR: Outside the membership to place  
10 the monies?

11 MR. STEWART: Yes.

12 MR. WAGAR: If you consider going outside  
13 membership purchasing Government of Canada bonds, we  
14 have purchased some bonds, but for loans we have loaned  
15 only to our members.

16 -----





1 MR. STEWART: If you have surplus funds, up  
2 until now your practice has been to put the excess in  
3 Government bonds?

4 MR. WAGAR: Put it to use in the purchase of  
5 Government bonds, yes. And the investments that are  
6 qualified by the legislation, as laid down.

7 THE CHAIRMAN: Mr. Stewart, in round figures  
8 I would make that very clear. There is \$1 million here  
9 of which \$500 thousand is members deposits and \$500  
10 thousand is share capital. That \$1 million, which is  
11 in this organization, is loaned out to members to the  
12 extent of \$650 thousand and \$350 thousand is invested,  
13 and the investments are Dominion of Canada bonds,  
14 Ontario bonds, Saskatchewan bonds, B.C. Electric, Ontario  
15 Hydro.

16 MR. D. E. STEWART: To explain, Mr. Chairman,  
17 the operation of the Central organization at the national  
18 level, the Canadian Co-operative Credit Society Limited,  
19 all this is a seasonal type of operation. Therefore,  
20 your net figures would not reflect the large amount that  
21 might be on deposit and out in loans at any one time.

22 MR. STEWART: Coming back to your one half  
23 of one per cent spread or to the gross gain, whatever it  
24 is you call it from your operations, you pay your expenses,  
25 you make appropriations to reserve, if you then have  
26 a working surplus, what do you do with it?

27 MR. WAGAR: The balance of savings, or the  
28 savings balance after the items you suggest, is paid out  
29 in the form of dividends on shares and has been up to  
30 the present time.





1 MR. STEWART: So that up until now, at any  
2 rate, you have not made any rebate to the borrowers of  
3 any portion of their  $5\frac{1}{2}$  per cent interest?

4 MR. WAGAR: That is true. Then some years,  
5 of course, there hasn't been anything left over. There  
6 has been a deficit.

7 COMMISSIONER WALLS: I wonder if I may interject  
8 one question right now? Because of the tremendous growth  
9 shown on this balance sheet sir between 1961 and 1962,  
10 did you take on a number of your eleven members between  
11 1961 and 1962?

12 MR. WAGAR: No. I believe there has been one  
13 new member in the 1962 period. The main increase has  
14 been additional shares subscribed and additional deposits  
15 made by the existing four provincial Centrals.

16 MR. D. E. STEWART: You see Mr. Chairman and  
17 Mr. Stewart, the deduction for loan and the transfer of  
18 the money from one regional to another, and one regional  
19 may be in a surplus position and another in a deficit  
20 position, it is common for transferring within the  
21 Co-operative Credit Union Movement, but we are controlled  
22 as to the amount of loans that can be made because  
23 loans are liabilities and they cannot be more than 10  
24 per cent of the capital subscribed to the organization  
25 so they control our liabilities so that as the business  
26 increases then under the present legislation, I would  
27 suggest that we will have to increase our share capital.

28 MR. STEWART: You used just now Mr. Stewart  
29 an expression "regional". What is the distinction between  
30 a Central and a Regional?





1 MR. D. E. STEWART: The regional, we use the  
2 term regional -- I should have probably specified this  
3 as provincial rather than regional. Some of us use it  
4 very loosely, provincial credit society, because ~~Chad~~Canadian  
5 society is a national group.

6 MR. STEWART: Then the regional or provincial  
7 is one of the centrals we were talking about earlier?

8 MR. D. E. STEWART: Yes.

9 MR. STEWART: I don't know that I have asked  
10 this of you gentlemen. In your operation you have a  
11 predetermined rate that you are prepared to pay on  
12 loans, incoming loans and you have a rate, of course,  
13 that you charge on out-going loans. Do the centrals  
14 also have these pre-determined rates?

15 MR. WAGAR: As far as I know, that is true.  
16 Is it true for each of the centrals?

17 MR. D. E. STEWART: Yes.

18 MR. STEWART: If a central is prepared to  
19 make money available to you at 5 per cent, I take it then  
20 that the rate it would accept money from its member  
21 credit unions would be lower than 5 per cent. Would  
22 that be true?

23 MR. WAGAR: I presume that is true.

24 MR. STEWART: Is there a prevailing rate for  
25 the centrals to pay on tdeposits?

26 MR. D. E. STEWART: I think Mr. Stewart Mr.  
27 Tendler could give you the rates which the ~~Sask~~Saskatchewan  
28 Co-operative Credit Society pays to its member credit  
29 unions.

30 MR. TENDLER: Mr. Chairman, Mr. Stewart, if we





1 use Saskatchewan as an example, we have three types.  
2 If we stick to deposit accounts for the present time,  
3 on the type of deposit accounts you have, firstly, demand  
4 deposits. Second 90-day term deposit. In other words  
5 funds must remain in for at least 90 days, and then one  
6 year deposit accounts. The rate varies, 2, 4, and 5  
7 per cent so the observation you made earlier that we  
8 paid a little less than 5 is not necessarily so. On  
9 one of our accounts we will pay 5 to our members and in  
10 turn can receive 5 by depositing some of the funds in  
11 the Canadian Credit Society.

12 MR. STEWART: Just so we get this in perspective,  
13 when you are loaning money out to your members, what is  
14 your basic rate?

15 MR. TENDLER: We have a number of rates. Get  
16 your pencil out. For credit union members who will leave  
17 with us either their deposits as security for the loan  
18 or their share capital as security for the loan, we will  
19 loan them funds at  $5\frac{1}{4}$  per cent. If they have negotiable  
20 securities, we will loan them funds, such as Dominion  
21 of Canada bonds, Province of Saskatchewan bonds, at  
22  $5\text{-}3/4$  per cent. Funds against assignment of book debts,  
23 in other words, a general credit, 6 per cent. Then we  
24 have other rates for our co-operative members, depending  
25 upon the term of the loan.

26 MR. STEWART: When you say you have a class of  
27 loan which is secured by an assignment of book debts,  
28 that your rate there is 6 per cent, this would be a loan  
29 to a credit union?

30 MR. TENDLER: Yes, this would be a loan -- may





1 I give you an example?

2 MR. STEWART: Please.

3 MR. TENDLER: We will suppose that a credit  
4 union with \$1 hundred thousand in assets had \$10 thousand  
5 invested in the Society. Under the Act in the Province  
6 of Saskatchewan a credit union may borrow \$25 thousand,  
7 roughly 25 per cent. Now ten thousand of this twenty-  
8 five thousand would be secured by share capital in the  
9 Society at  $5\frac{1}{4}$  per cent. You may borrow an additional  
10 15 from us subject to approval of our credit committee  
11 and they have no other security except general credit  
12 or assignment of book debts, this is at 6 per cent.

13 MR. ROBINSON: These rates will be general.  
14 They are not exactly the same for each central. They  
15 are close enough to be average.

16 MR. STEWART: The evidence earlier on to-day  
17 was that there were 27 centrals in Canada. You have 4  
18 of them, apparently, as members. Are there other organ-  
19 izations in Canada which carry on the same function as  
20 the Canadian Co-operative Credit Society?

21 MR. WAGAR: The same function as Canadian  
22 Co-operative Credit Society? No.

23 MR. STEWART: So that the 23 centrals have  
24 nobody like you to come to for loans or for investment  
25 of their surplus funds?

26 MR. WAGAR: That is right.

27 MR. STEWART: Mr. Gauley and I have been dis-  
28 cussing during the afternoon the question whether a  
29 union of this sort, a credit union can be considered  
30 to operate on an agency basis. Whatever the answer to





1 that question may be, as regards credit unions at what  
2 I have been calling the ground level, I take it Mr.  
3 Gauley that you might argue that in the case of this  
4 term, where there are 11 members and 11 only, the case is  
5 relatively strong?

6 MR. GAULEY: It is even clearer.

7 MR. STEWART: Well now let me put this to you  
8 just by way of illustration: let us suppose that member  
9 A, who is one of your 11 members, comes along and deposits  
10 \$1 hundred thousand with this Society. This money, I  
11 take it, would be deposited in one of the general accounts  
12 of the Society. Would that be right?

13 MR. WAGAR: One of the general accounts?

14 MR. STEWART: Yes.

15 MR. WAGAR: Do you mean as a deposit rather  
16 than as a share?

17 MR. STEWART: Yes. Let us suppose that it  
18 goes into the deposit account of member A, and when you  
19 receive a cheque, or whatever it is you receive for  
20 \$1 hundred thousand, do you put it into a bank account?  
21 What do you do with it?

22 MR. WAGAR: The Canadian Co-operative Credit  
23 Society has a bank account with the Bank of Nova Scotia.

24 MR. STEWART: You deposit this with your  
25 general funds?

26 MR. WAGAR: Right.

27 MR. STEWART: Theoretically, at any rate,  
28 at the same time as that \$1 hundred thousand comes in,  
29 monies may be coming in from members B, C, D and E.  
30 Do they all go into the same account?





1 MR. WAGAR: They all go into the same bank  
2 account, that is right.

3 MR. STEWART: If member F comes along and says  
4 that he wants to borrow from you \$75 thousand and is  
5 prepared to pay ~~you~~ 5½ per cent, I take it that you would  
6 draw a cheque on your bank account for \$75 thousand  
7 in favour of member F?

8 MR. WAGAR: That is correct.

9 MR. STEWART: Is member A's \$1 hundred thousand  
10 identified in any way with your \$75 thousand loan to  
11 member F?

12 MR. WAGAR: Is it identified in any way?  
13 The answer to that question would generally be yes.  
14 Many of the loans that have been made, particularly in  
15 1962 and from the time we started, could be identified  
16 pretty well as to where the funds came from, if that  
17 is the question.

18 MR. STEWART: Let us go back to one of these  
19 centrals and monies that come in from the members of  
20 a central by way of deposit presumably go into this bank  
21 account and then when it makes a loan, they come out.  
22 Is it possible, as a general rule, to trace a particular  
23 advance by a member of the central through so that you  
24 can say that it was the monies of member X which were  
25 utilized for the purpose of a loan to member Y?

26 MR. WAGAR: This would be a provincial central?

27 MR. STEWART: Yes.

28 MR. WAGAR: I doubt it, but I would ask one  
29 of the provincial managers to answer that.

30 MR. STEWART: I would assume that if you are





1 doing business on any kind of a scale, it would be  
2 quite impossible. By the same token, if member X, who  
3 is a member of the central, wants to have some of his  
4 money refunded, this money would come out of the  
5 general funds of the Co-operative and it would not be  
6 possible to say that it came from any particular borrower?

7 MR. WAGAR: This is at the provincial level?  
8 Yes, that is true.

9 MR. STEWART: Well Mr. Gauley I put it to you  
10 that this makes the agency concept somewhat difficult?

11 MR. GAULEY: Well it seems to me that the  
12 courts have considered this in so many different facets.  
13 For instance, I have in mind Jones versus the South  
14 West Lancashire Coal Association Limited where a group  
15 of owners of mines went together to protect themselves  
16 from claims and they formed a fund and made an assess-  
17 ment based on the total wages each ~~owner~~ owner paid  
18 and set aside a reserve fund which belonged to the company  
19 and of course they used the corporate entity to accomplish  
20 their purposes and if a member were to leave and  
21 sell his business, go out of business, it was clear from  
22 their by-laws or regulations that they would not have  
23 a claim that was identifiable in the reserve fund and  
24 yet the court held that this did not make this surplus  
25 income so it seems to me that it is fair for me to say  
26 that I don't think that it is, based on the cases that  
27 have considered these principles although I must quite  
28 frankly say that it was not talking about credit unions.  
29 It's a question of application of principles.

30 MR. STEWART: You also refer in your brief





1 to cases involving mutual insurance companies, and so  
2 on which may or may not be material here. Do I judge from  
3 paragraph 13 of this brief that you are suggesting that  
4 the monies of this particular credit union, or of any  
5 other credit union, do not belong to the union absolutely?

6 MR. GAULEY: They have legal title. There is  
7 no question about legal title but as I understand it from  
8 the cases dealing with this principle is what they have  
9 to do with it. What must they ultimately do with it  
10 and clearly if there is any surplus at the end of the year,  
11 then the members themselves determine where it goes but  
12 it must go back, subject to statutory reserves, back to  
13 the members themselves.

14 MR. STEWART: And that is the concept there  
15 of saying that they have no absolute right, in that  
16 sense?

17 MR. GAULEY: Certainly they have legal title  
18 to it. There is no impairment or impediment to the title.  
19 What they must do with it after is the test, I think.  
20 I am suggesting this is the test that was applied by  
21 Mr. Justice Thorson in those agency cases.

22 MR. STEWART: Mr. Chairman, I think, as you  
23 know, I must depart so if I may leave --

24 THE CHAIRMAN: Very well, you leave now. We  
25 will resume the questions without you. However, we will  
26 miss you very much indeed. Now are there any questions  
27 up here?

28 COMMISSIONER GRANT: Well just to pursue that  
29 line of argument, in Mr. Stewart's discussion with you  
30 Mr. Gauley, your contention would be that the union can





1 assert title against all except the owners? It can ex-  
2 ercise ownership?

3 MR. GAULEY: Yes, just like a marketing agency  
4 gets title and sells; it passes title to the goods to  
5 a buyer and then the proceeds, it must account for these  
6 proceeds to these members and the same here. If there  
7 is a saving or a surplus at the end of the year, this  
8 legal entity must account to these members. It hasn't  
9 any impediment on its title so far as dealing with the  
10 assets.

11 COMMISSIONER GRANT: You have said earlier that  
12 loans which your organization can make cannot exceed  
13 10 per cent of your subscribed capital?

14 MR. WAGAR: Subscribed capital and surplus, sir.

15 COMMISSIONER GRANT: Your balance sheet  
16 would show that your loans are about the equivalent of your  
17 subscribed capital but your advances from members are  
18 about the equivalent or around the \$500 thousand figure?

19 MR. WAGAR: That is right.

20 COMMISSIONER GRANT: Therefore, most of your  
21 loans, apart from say 10 per cent of your subscribed  
22 capital surplus, have come from advances from your members?

23 MR. WAGAR: Deposits from members.

24 COMMISSIONER GRANT: When you are called upon  
25 to make a loan, that request may come from any part of  
26 Canada?

27

28

29

30





1 MR. WAGAR: That request would come from any one  
2 of our members.

3 COMMISSIONER GRANT: Any one of your members,  
4 any place?

5 MR. WAGAR: Yes.

6 COMMISSIONER GRANT: The request, in turn, which  
7 comes to you from a member, the loan doesn't necessarily  
8 have to be for that member, but it could be for a credit  
9 union or co-operative society which in turn is a member  
10 of that provincial association.

11 MR. WAGAR: You mean for credit purposes?

12 COMMISSIONER GRANT: Borrowing from you to pass  
13 on to some other co-operative organization.

14 MR. WAGAR: Yes.

15 MR. ROBINSON: To one of their members.

16 COMMISSIONER GRANT: To one of their members,  
17 exactly. I was just interested in the machinery you used  
18 to approve of a loan such as that. Do you visit the  
19 premises? Does a representative of your particular organ-  
20 ization go out and look it over?

21 MR. WAGAR: What kind of land -- we wouldn't  
22 have to look at any premises.

23 THE CHAIRMAN: Your loans are only to your  
24 members.

25 MR. WAGAR: Only to our own members.

26 THE CHAIRMAN: Who are sitting with you up here.

27 MR. WAGAR: They are sitting here now.

28 COMMISSIONER GRANT: We have already settled  
29 that. The reason you are requested to make a particular  
30 loan is because a request is made by its member





1 for a loan. Do you interest yourself in the merit of  
2 the original application?

3 MR. WAGAR: No, we don't.

4 COMMISSIONER GRANT: You depend entirely upon  
5 your member's recommendations?

6 MR. WAGAR: They are not recommending a loan.  
7 They are applying for a loan. They are applying for it.

8 COMMISSIONER GRANT: If they apply for it what  
9 test do you apply to whether you will make the loan?

10 MR. WAGAR: To them?

11 COMMISSIONER GRANT: Yes?

12 MR. WAGAR: The condition of our finances at  
13 the time, whether or not we have the funds would be one of  
14 the things.

15 COMMISSIONER GRANT: Do you go into the merits  
16 of the loan? Are you satisfied that the loan will be  
17 repaid because the member has requested that it be made?

18 MR. WAGAR: I suppose in a normal sense we would  
19 go into the merits. I presume you wouldn't loan money...

20 COMMISSIONER GRANT: I am not asking you whether  
21 you presume. Do you go into it?

22 MR. WAGAR: Yes, I guess.

23 MR. D. E. STEWART: I think we should explain  
24 this. By law we are confined to making unsecured loans  
25 to 10 per cent of the capital, deposit capital in surplus.  
26 This confines the unsecured portion to a very small por-  
27 tion of the total amounts when we are getting to the position  
28 where we are making loans of large amounts, \$5 hundred  
29 thousand and so on, that should be secured.

30 THE CHAIRMAN: Explain "we", who do you mean?





1 MR. D. E. STEWART: The Canadian Co-operative  
2 Credit Society, the National.

3 COMMISSIONER GRANT: I am thinking in particular  
4 of a situation -- I am not too familiar with it, but  
5 the Maritime Co-operatives is a member of yours.

6 MR. D. E. STEWART: The Maritime Co-operative,  
7 yes.

8 COMMISSIONER GRANT: There is another assoc-  
9 iation, the Eastern Co-op which would be a member of the  
10 Maritime Co-op.

11 MR. WAGAR: The Eastern Co-operative.

12 COMMISSIONER GRANT: It is located in Cape  
13 Breton. It is outside of the city of Sydney.

14 MR. WAGAR: I am not sure whether it is a member  
15 of the Maritime Co-operative Services.

16 COMMISSIONER GRANT: It is. They had a very  
17 large plant and they got into considerable difficulties.  
18 If you had loaned, and I don't know if you did, but if  
19 you had loaned on that particular plant this application  
20 for that loan would have come through Maritime Co-operative  
21 Services Limited.

22 MR. ROBINSON: A loan made by the Canadian Co-  
23 operative Credit Society to one of its members is based  
24 on the financial statement of the member to which the  
25 loan is made. It is not one step back removed to the  
26 member to whom that member will make the loan. There  
27 will be an examination of the member to which the Canadian  
28 Co-operative Credit Society makes the loan. The soundness  
29 will therefore be dependent on that operation.

30 COMMISSIONER WALLS: I have one question: I





1 would like to have had it clarified earlier to-day. It  
2 does not directly bear on you. As I understand it if a  
3 credit union decides to go out of business in two of the  
4 provinces, the Acts require, whatever reserves remain  
5 be turned over to community affairs. I think that applies  
6 to Saskatchewan and Quebec. The other provinces, then,  
7 I would assume that their Acts require that it be paid  
8 to the members. Am I right, the reserve be repaid to  
9 the members?

10 MR. WAGAR: I am not sure.

11 MR. ROBINSON: The B.C. Act doesn't so state.  
12 It would obviously follow if there was something more  
13 than one hundred cents on the dollar, it would reasonably  
14 follow, if there was a surplus it would be apportioned out  
15 to the members at the time of liquidation.

16 THE CHAIRMAN: The Acts could be silent on this  
17 point.

18 MR. ROBINSON: There is no wording in our Act  
19 on it.

20 COMMISSIONER WALLS: If you were to do that  
21 you would pay it out on the basis of the members you have  
22 to-day rather than the members that contributed to it;  
23 is that right?

24 MR. WAGAR: Right.

25 COMMISSIONER WALLS: Thank you.

26 COMMISSIONER PERRY: I interpreted a statement  
27 that was made sometime during your presentation to us  
28 that there were large seasonal fluctuations in your demand  
29 for loans. Is this true?

30 MR. WAGAR: Yes, that is true.





1 COMMISSIONER PERRY: Could you give us some  
2 idea of the order of the magnitude of the high and the  
3 low in your representative years activities.

4 MR. WAGAR: I think in answering that the last  
5 balance sheet is probably the best that we have at the  
6 moment. At one time, \$650,000.00, as stated by the  
7 Chairman -- that is probably the highest from the time we  
8 began, and the low, of course, has been down as far as  
9 nil, we have had no loans.

10 COMMISSIONER PERRY: This could happen during  
11 the same year, could it?

12 MR. WAGAR: It could happen.

13 COMMISSIONER PERRY: You would have this fluct-  
14 uation in one year?

15 MR. WAGAR: With our present size it could happen  
16 in the same year.

17 MR. ROBINSON: It is rather likely to happen  
18 in the same year because the members borrowing from the  
19 Canadian Society will have seasonal fluctuations within  
20 themselves.

21 MR. D. E. STEWART: I made that statement in  
22 the balance sheet of May 31st. I thought I had the  
23 most recent balance sheet. May 31st, the loans to the  
24 members was \$1 million 250 thousand. Member de-  
25 posits were \$1 million 200 thousand. Now, September 30th,  
26 the loans to members is \$2 million, 305 thousand and the deposi  
27 \$2 million, 175 thousand. That would subside toward  
28 the end of the year to the figure which was quoted here.

29 THE CHAIRMAN: Something like what was there  
30 last year?





1 COMMISSIONER PERRY: Do you maintain this sort  
2 of close relationship between deposits and loans all  
3 through the piece?

4 MR. WAGAR: Yes.

5 COMMISSIONER PERRY: When you go down to nil  
6 you have repaid your loans?

7 MR. WAGAR: Repaid deposits.

8 COMMISSIONER PERRY: Repaid deposits, and this  
9 is at your own volition rather than at the volition of  
10 your members?

11 MR. WAGAR: This is by agreement with the  
12 members. If a member that has made a deposit urgently re-  
13 quires funds for their use the members that have made  
14 loans, they make every effort to repay the loans so the  
15 funds would be free for the depositor to withdraw.

16 COMMISSIONER PERRY: Your organization, the  
17 third tier organization is not at any time holding \$2  
18 million worth of deposits none of which it has out on  
19 loan?

20 MR. WAGAR: No.

21 MR. HENSCHER: I might add, Mr. Chairman, actually  
22 we are really using it for trenching of funds between  
23 provinces to make full utilization of funds. But if I have  
24 some surplus funds and they can be used elsewhere this  
25 is the vehicle we actually use, in a sense.

26  
27 COMMISSIONER GRANT: You are working on a very  
28 small margin of profit, one-half of one per cent plus  
29 what your income accounts bring you from your paid up  
30 share capital.





1 MR. WAGAR: We don't call it margin of profit.

2 MR. ROBINSON: In general the concept of this  
3 organization in the minds of members is for the utilization  
4 of members' money from one province to another, just for  
5 the service of members. This was the concept on which it  
6 was started. This was the basis for its starting. This  
7 concept has lasted.

8 THE CHAIRMAN: I want to run down your financial  
9 statement which will run down the money you use.

10 COMMISSIONER PERRY: It seems to be a fortunate  
11 piece of timing that the needs of some of your members  
12 happen to coincide with times your other members have  
13 surplus funds. What I can't understand is with the kind  
14 of mix you have got why you don't have a fairly level  
15 transaction through the piece rather than great peaks  
16 and valleys?

17 COMMISSIONER GRANT: If your membership were  
18 larger you would.

19 MR. WAGAR: A pretty narrow membership would  
20 be the answer.

21 COMMISSIONER PERRY: You have membership in  
22 Ontario and the Maritimes.

23 MR. WAGAR: We have 11 members altogether.

24 COMMISSIONER PERRY: You are pretty closely tied  
25 to agricultural crops.

26 MR. WAGAR: Yes.

27 COMMISSIONER PERRY: Thank you very much.

28 THE CHAIRMAN: A few questions on the financial  
29 statements: loans to members, \$650,000.00 -- that is  
30 7 members, am I correct?





1 MR. WAGAR: 11 members.

2 THE CHAIRMAN: That would average something like  
3 \$60,000.00 a member and I thought any loan was restricted  
4 to 10 per cent of capital.

5 MR. WAGAR: Unsecured loans.

6 THE CHAIRMAN: Thank you very much. A great  
7 part of these loans are secured.

8 MR. WAGAR: Are secured.

9 THE CHAIRMAN: Secured by assignments of funds  
10 due to your members from other of their members?

11 MR. WAGAR: No, secured by negotiable securities.

12 THE CHAIRMAN: Secured by negotiable securities --  
13 that is in most cases?

14 MR. WAGAR: In most cases, yes.

15 THE CHAIRMAN: When I run down the profit and  
16 loss account I see that your income in 1962 with interest  
17 on loans, \$16,000.00, which would come from whatever  
18 the loans might be throughout the year, not this \$650,000.00  
19 but its equivalent throughout the year. I would gather  
20 that the average amount would be a good deal less than  
21 \$650,000.00 because you are earning a rate on that, I  
22 think, of 5 or 6 per cent.

23 MR. WAGAR: Yes,  $5\frac{1}{2}$ .

24 THE CHAIRMAN:  $5\frac{1}{2}$  per cent. Your interest on  
25 deposits, that is what you paid out, is \$12,000.00 and  
26 your deposits as I see it here are \$515,000.00 and you pay  
27 out something like 3 or 4 per cent.

28 MR. WAGAR: 3 -- on deposits, did you say?

29 THE CHAIRMAN: Yes.

30 MR. WAGAR: 5.





1 THE CHAIRMAN: Your deposits would be likewise  
2 earning less, and then \$11,600.00 savings which is used  
3 up in reserves to the extent of \$4,300.00, guarantee/  
4 fund, \$2,300.00 and dividends declared of \$3,300.00.  
5 Now, the dividends, would that relate to the \$506,000.00  
6 in share capital outstanding at the end of the year or  
7 would some of that have been issued during the year?

8 MR. WAGAR: Some of it, the big part of it was  
9 issued during the year as I indicated earlier.

10 THE CHAIRMAN: It looks like a very low return  
11 on share capital.

12 MR. WAGAR: It is a very low return.

13 THE CHAIRMAN: What would it be?

14 MR. WAGAR: 3 per cent in 1962.

15 THE CHAIRMAN: So you have roughly \$100,000.00  
16 outstanding.

17 MR. WAGAR: We had which?

18 THE CHAIRMAN: Roughly \$100,000.00 outstanding.

19 MR. WAGAR: On an average, you mean?

20 THE CHAIRMAN: Yes, on an average.

21 MR. WAGAR: On an average that is right.

22 THE CHAIRMAN: Thank you very much indeed. Those  
23 are all the questions I think we have got here.

24 COMMISSIONER WALLS: I wanted to ask one: the  
25 answer you gave to Mr. Perry worries me, that one of the  
26 reasons for the fluctuation was in relation to crops.  
27 I can hardly credit that would be the answer to why you  
28 would have so much more money at one particular time and  
29 more people wanting to borrow at one particular time.  
30 The booklet we got this morning shows that only 4.4 per





1 cent of the credit unions by classifications are associ-  
2 ations which include co-ops, lodges, farm and veterans  
3 groups so a very small percentage of all credit union work  
4 must be tied to farms. What is the reason for saying  
5 your fluctuation is based on that?

6 MR. WAGAR: I am sorry, I misunderstood. To  
7 my knowledge I didn't answer this was true.

8 COMMISSIONER PERRY: That was the assumption  
9 I drew myself, that you are closely tied to agriculture  
10 and the answer came back, "yes".

11 MR. D. E. STEWART: In fishing, fishing is  
12 certainly one.

13 MR. WAGAR: I suppose it is closely tied in  
14 to most industries.

15 MR. BEST: I think in the community type oper-  
16 ations, back at the ground level you would have a tie-  
17 in with crops. You would have more in the Prairies than  
18 here in Ontario. You would have seasonal fluctuations  
19 tied to crops, more in either the west or east coast  
20 tied to the fishing industry. It wouldn't necessarily  
21 tie in with the statistics there that say a certain per-  
22 centage are tied in with farm operations.

23 COMMISSIONER WALLS: Let us follow this. I  
24 presume your heavier deposits would come about the fall  
25 and spring in this type of group.

26 MR. BEST: That is right.

27 COMMISSIONER WALLS: Is this the guide-post  
28 to other organizations who wish to borrow as to when they  
29 should ask for funds for expansion; in other words it is  
30 geared to the time funds are most readily available





1 as to when loans are applied for.

2 MR. BEST: I think that is partly true. Certain-  
3 ly if the funds are not available we cannot make the loan.  
4 If the funds are available we can make the loan. We  
5 may have -- more groups may have members asking for funds when  
6 we are least able to provide and get deposits from other  
7 members to provide the loans.

8 MR. HENSCHER: I might just add this, Manitoba  
9 being right next to Saskatchewan -- our demands are still  
10 quite different. For instance practically half of our  
11 credit unions in Manitoba are in the City of Winnipeg.  
12 I think, and I am just guessing, I would think in Saskat-  
13 chewan mainly the country loans, they are starting to be  
14 repaid whereas right now my loans are at an all-time high  
15 due to people buying cars, fixing up homes. Even very  
16 close, the next province, our needs do vary and don't  
17 actually coincide and there is a chance that the peaks  
18 and hollows don't coincide even for provinces close to-  
19 gether.

20 COMMISSIONER WALLS: Wouldn't they tend to level  
21 out if one province is up and one is down? This kind  
22 of extreme fluctuation from one time to another it would  
23 appear to me the answer was given a few minutes ago, that  
24 you withhold your request for funds to borrow until you  
25 know the season of the year when deposits are heaviest.

26 MR. HENSCHER: That is quite right.

27 THE CHAIRMAN: Thank you very much, gentlemen,  
28 indeed. We have no further questions. We are grateful  
29 to you indeed for appearing to-day and for your submission.  
30 It is going to be extremely helpful to us in our further





1 considerations of this problem. It is nice to have  
2 seen you to-day. Do you have anything you wish to say  
3 to us?

4 MR. WAGAR: I would just like to thank you for  
5 hearing us and I think the main part of our brief is  
6 we are a service organization and tied to servicing the  
7 members and as such they pretty well control our  
8 particular operation.

9 THE CHAIRMAN: Thank you very much. We will  
10 stand over until 9:30 to-morrow morning.

11  
12 ---Whereupon the hearing adjourned until 9:30 A.M.

13 November 13, 1963.  
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# ROYAL COMMISSION

ON

## TAXATION

### HEARINGS

HELD AT  
OTTAWA

ONT.

VOLUME No.:

67

DATE

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1  
2 THE ROYAL COMMISSION ON TAXATION

3 Hearing held in the Centre Court  
4 Room, Exchequer Court of Canada,  
5 Supreme Court Building, Wellington  
6 Street, Ottawa, on Wednesday,  
7 November 13th, 1963.

8 COMMISSION:

9 MR. KENNETH LeM. CARTER -- Chairman

10 MR. J. HARVEY PERRY

11 MR. A. EMILE BEAUVAIS

12 MR. DONALD G. GRANT

13 MRS. S. M. MILNE

14 MR. CHARLES WALLS

15  
16 LEGAL ADVISER:

17 J. L. STEWART ESQ. Q.C.

18  
19 RESEARCH DIRECTOR:

20 PROF. D. G. HARTLE

21  
22  
23  
24 SECRETARY:

25 MR. G. L. BENNETT

26  
27 .....  
28  
29  
30





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No.

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Brief submitted by the Consumers Association of Canada. 5385





MR/ND

1 ---UPON COMMENCING AT 9:30 A.M.

2 THE CHAIRMAN: Mr. Secretary, I think we have  
3 now reached 9:30. Are we all ready?

4 THE SECRETARY: All ready sir. Mr. Chairman  
5 and Commissioners, you have before you this morning a brief  
6 being presented by the Consumers Association of Canada.  
7 Present is Mrs. Beryl Plumtre, President of the Association.  
8 Dr. H. E. English, Vice-President of the Association  
9 and Mr. Christopher Maule, Adviser to the Association  
10 from the Department of Economics, Carlton University.

11 Dr. English will speak to the brief, Mr. Chair-  
12 man, which I now enter into the record as Exhibit 259.

13 ---EXHIBIT NO. 259:

Brief submitted by  
The Consumers Association  
of Canada.

16 SUBMISSION OF

17 THE CONSUMERS ASSOCIATION OF CANADA

18 Appearances: Mrs. Beryl Plumtre  
19 Dr. H. E. English  
20 Mr. Christopher Maule

21 THE CHAIRMAN: Thank you Mr. Secretary. Good  
22 morning Mrs. Plumtre, Dr. English. Thank you very much  
23 for your submission which we have already received and  
24 I might say have read with interest. We will have a  
25 few questions to put to you but before doing so may I  
26 present the Commissioners. Their names are all before them.  
27 Mrs. Plumtre, if you are speaking to us, I would be  
28 very grateful if you would tell us a little more about  
29 the Consumers Association of which I am not very familiar.

30 I have read what you have stated here. Stand or





1 not as you please. Most people don't I may say.

2 MRS. PLUMTRE : Certainly, Mr. Chairman, and I  
3 would like to begin by thanking you for this opportunity  
4 to appear before you on behalf of our Association. The  
5 Consumers Association now is 16 years old, having been  
6 started before the War as an outgrowth, more or less,  
7 with the support of the National Women's Organization as  
8 the Wartime Prices and Trade Board ceased to operate and  
9 the work that women had done to help the consumer branch  
10 had interested women in consumer problems of the day and  
11 it was felt by the Women's National Organization this  
12 could be of benefit, so this was established as a woman's  
13 organization and continued to be such until 1960 when we  
14 became incorporated and acquired a new constitution which  
15 opened the membership to all Canadians, so at the moment  
16 we are an association of consumers and we hope we rep-  
17 resent certainly a large proportion of consumers. Our  
18 individual membership is now running about 20,000 people.

19 In addition to the individual membership, we  
20 have what is known as group membership and this is a  
21 membership that is open to any rural group who pays us  
22 a nominal fee of \$5.00 a year to get copies of our mag-  
23 azine "The Canadian Consumer" and they also channel back  
24 to us consumer problems that they are interested in.

25 This, as I say, membership is limited to rural  
26 groups but this gives a very good contact with the rural  
27 consumers. We have nearly 500 of these groups.

28 In addition to that we have what is known as  
29 an associate membership for national organization, and  
30 we have at the moment 17 national organizations which pay





1 us also a nominal fee and these organizations appoint  
2 liaison officers from their organizations to our organiz-  
3 ation at all levels, if they operate at all levels:  
4 national, provincial and local so altogether through these  
5 different strata we can reach really a great number of  
6 Canadian people.

7 We have a copy of the constitution. Basically  
8 of course the aim of the organization is to try and  
9 raise the standard of living of Canadian consumers. To  
10 educate consumers to be better buyers and in that regard  
11 we not only have meetings and programmes and such, but  
12 we publish a magazine six times a year which now publishes  
13 the results of tests on consumer products as well as  
14 articles of general interest to consumers.

15 Then, in addition, we do like to think we  
16 speak for the consumers, certainly for a number of con-  
17 sumers when we make representations such as this.

18 THE CHAIRMAN: Thank you Mrs. Plumtre . You  
19 spoke about the different strata by which you are organ-  
20 ized. Do you have a provincial group or branch?

21 MRS. PLUMTRE : Yes. We have a provincial group  
22 in every province.

23 THE CHAIRMAN: Not incorporated?

24 MRS. PLUMTRE : No. The national organization  
25 is incorporated with provincial branches of the national  
26 organization. The president of our provincial branch  
27 sits on our Board of Directors. Then, in addition, we  
28 have about 80 branches, local branches all across the  
29 country.

30 THE CHAIRMAN: When you come to make a submission,





1 which I would assume an organization like yours would do  
2 fairly frequently, that is carried out by the national  
3 body I would guess?

4 MRS. PLUMTRE: After consultation with prov-  
5 incial groups, this part -- when we decided we would make  
6 a presentation before your Commission, a draft was drawn  
7 up at national level. This was then circulated to the  
8 provincial people, and this was some months ago and they  
9 are invited to send us any comments, which they did and  
10 this was brought back and discussed at the national level  
11 and it was then we decided to send out a sample question-  
12 naire and that was distributed not to -- it was distrib-  
13 uted on a basis of trying to get answers from where we  
14 thought would be the most active groups as well as some  
15 non-members. We asked them to try to get people who were  
16 not members, necessarily trying to get a more representative  
17 opinion, so then when they came back, then the final  
18 draft was drawn up after discussion with the groups'  
19 national executive.

20 THE CHAIRMAN: We will discuss the questionnaire  
21 a little later, I think, when we come down to it. We  
22 are very grateful to you for having drawn attention to  
23 that, I might say. Do you have a stated policy with  
24 regard to taxation? Have you at any time said we are  
25 against one form of taxation or we favour another form?  
26 Many organizations have taken or laid down a policy which  
27 they consider to be pillars, and they adhere to this  
28 as closely as they can. I was wondering whether your  
29 organization has ever done that.

30 MRS. PLUMTRE: I think this is the first time





1 we have really sat down and given taxation a major con-  
2 sideration. We have from time to time asked Government  
3 for certain measures regarding certain taxes. We have  
4 asked for taxes to be taken off. When the sales tax was  
5 put on in Ontario, we asked, through our Ontario organ-  
6 ization, that it not be put on food and children's  
7 clothing. We have also asked taxation be not discrimin-  
8 atory with regard to margarine. We feel at the moment  
9 it is discriminatory. We have done certain things like  
10 that but not a major policy, I don't think, on the overall  
11 aspect of taxation.

12 THE CHAIRMAN: You have never said you are  
13 for sales tax and against income tax or vice versa?

14 MRS. PLUMTRE: No, not to my knowledge.

15 THE CHAIRMAN: I think, if it is suitable to  
16 you, would Dr. English care to make a statement to us?  
17 It is Dr. English? Am I correct?

18 DR. ENGLISH: Yes, that is right.

19 THE CHAIRMAN: Before we start asking questions?

20 DR. ENGLISH: I have just about two sentences  
21 which I might stress are by way of noting the fact I  
22 might appear to the Commissioners to be an economist in  
23 disguise as a consumer. I think in these circumstances  
24 it should be as well to emphasize the role consumer  
25 rather than economists for the very good reason that as  
26 an economist I am not a specialist on taxation.

27 THE CHAIRMAN: You are a consumer.

28 DR. ENGLISH: I am a specialist on consumption,  
29 yes. That is really all I wanted to say. I don't want  
30 to misrepresent myself as a specialist on taxation. Almost





1 all economists should know something about taxation but  
2 not all of them are specialists.

3 THE CHAIRMAN: Of course, we are very much  
4 interested in the effects of taxation and in that regard  
5 I find myself pretty well hand in hand with the economists.

6 COMMISSIONER PERRY: Dr. English we all will  
7 be having something to say about this brief, I have no  
8 doubt. I find that the first few sections state what  
9 seem to be almost accepted truths of economics and public  
10 finance now, that there are certain economic objectives,  
11 the attainment of which can be assisted or retarded through  
12 fiscal policy.

13 I notice that you do come down fairly strongly  
14 though on the side of the use of taxation rather than  
15 expenditure for the attainment of most of these objectives.  
16 I think on the ground of the greater flexibility of  
17 taxation. Am I right in that, and if so, would you care  
18 to explain?

19 DR. ENGLISH: I think possibly it is partly be-  
20 cause we are dealing with a brief to the Royal Commission  
21 on Taxation rather than on expenditures that the emphasis  
22 may be that way but going beyond that, I would agree that  
23 because of the greater flexibility of taxation, especially  
24 in the matter of policy affecting stability and growth,  
25 we would tend to favour -- I would tend to favour the  
26 emphasis on taxation measures in that brief.

27 COMMISSIONER PERRY: Would this be because it  
28 is a more flexible and easily adopted element, susceptible  
29 to quicker change than expenditures?

30 DR. ENGLISH: In large part I think that would





1 be the reason I would give.

2 COMMISSIONER PERRY: Given this then, it is  
3 all the more important that we have answers to the  
4 various questions which you raise?

5 THE CHAIRMAN: Before you get away from the first  
6 part --

7 COMMISSIONER WALLS: I want to go to Page 2.

8 THE CHAIRMAN: I want to deal with this matter  
9 of stability of taxes which I think is the point Mr.  
10 Perry raised and I think is a very important point. I  
11 have been curious as to how one uses taxes successfully  
2 12 as an economic stabilizer. They do not seem to move very  
13 readily. I observe that once a country adopts investment  
14 allowances it is pretty hard to withdraw them and per-  
15 sonally I think stabilizers have to go both ways easily to be  
16 of much use. Am I not correct?

17 DR. ENGLISH: Yes, indeed. My own inclination  
18 in this area is to place more emphasis upon the general  
19 role of taxation in questions of stabilization and when  
20 it comes to the motion for investment, particularly to  
21 look for a combination of policies to permit sound in-  
22 vestments. It's the general role of taxes I would emphasize,  
23 I think, in this area.

24 COMMISSIONER PERRY: Looking in terms of the  
25 net contribution to deduction through the deposit or  
26 surplus function, with taxation being the element which  
27 is most adjustable in creating either that deposit or  
28 surplus?

29 DR. ENGLISH: Yes.

30 COMMISSIONER WALLS: On Page 2 you state: "The





1 private economy is sometimes insufficiently competitive  
2 and private enterprise in these circumstances is not  
3 compelled by competition to supply goods and services  
4 at the quality and price which competition would ensure.  
5 Government ownership or control of public utilities and  
6 control of restricted business practices can be explained  
7 by this factor."

8 Dr. English do you recognize that this is the  
9 reason for Governments' takeover of utilities rather than  
10 tax gains?

11 DR. ENGLISH: I think taking the long sweep  
12 of history that this would have been a basic motivating  
13 factor. There have been not only in this country but  
14 in the United States I would say a strong pressure against  
15 the practice of private utilities during the last century,  
16 for example, and that this is generally political pressure  
17 which has contributed a great deal to the policy of reg-  
18 ulating public utilities and sometimes taking them over.  
19 I think the choice between taking them over and regulating  
20 them may have been more often for or on tax grounds,  
21 though I am certainly not an expert on that point but  
22 I would feel there are much more political reasons involved  
23 in the act of deciding to regulate a quasi monopoly.

24 THE CHAIRMAN: You are simply saying where there  
25 isn't a fairly competitive market Government must regulate  
26 are you not?

27 DR. ENGLISH: Yes, or I even would take the  
28 word "must" out of there. That society demands that they  
29 do. Whether an individual economist would say must or  
30 not is really quite a matter of indifference. It has happ-





1 ened that way.

2 COMMISSIONER PERRY: Putting it another way:  
3 there weren't any taxes at all when Adam Beck started  
4 the Ontario Hydro.

5 DR. ENGLISH: A good point.

6 COMMISSIONER WALLS: The only point I bring this  
7 up for is in previous representations in regard to this,  
8 they have always dealt with the fact that it was primarily  
9 because of tax advantages.

10 DR. ENGLISH: I don't think I would agree with  
11 that proposition.

12 COMMISSIONER PERRY: Then I gather that your  
13 thesis is that if taxes are to be, always remembering  
14 that you are addressing yourself to a Taxation Commission, bu  
15 taxes are to be the flexible element of the fiscal appar-  
16 atus, it becomes all the more important that the objectives  
17 that are being served should be explained and, therefore,  
18 all the more important that Government financing pre-  
19 sented in a more understandable way and really the exercise  
20 you have gone through I find is quite interesting.

21 In fact it followed very closely, I think, a  
22 form of presentation of the kind of thinking that was  
23 in the mind of one of last week's witnesses, Mr. Anderson,  
24 President of North Amercian Life whose own thinking was  
25 that he looks at the direct taxes and the social welfare  
26 programme as being very much all one piece, all part of  
27 an apparatus for redistribution and the indirect taxes  
28 as sort of a basic structure of Governments revenue for  
29 paying for the normal function of Government.

30 That is not quite the thesis that you are





1 developing here, but it is almost.that

2 THE CHAIRMAN: I thought it was the opposite.

3 DR. ENGLISH: I would have to think about that  
4 one for quite a while. Insofar as this kind of idea  
5 represents the type of expenditure activity and taxation  
6 activity, to make sure they don't run counter to one another,  
7 I certainly go along with that. I think this is a  
8 very easy position to take but I think it is a very im-  
9 portant one and one that is not always recognized, never-  
10 theless.

11 On the question of what role indirect taxes  
12 should play, I think there are important changes in the  
13 attitude towards direct taxes, especially in regard to  
14 the potential regressiveness of them, and this kind of  
15 thing, but I don't think I care to generalize about the  
16 role they should play.

17 COMMISSIONER PERRY: Were you attempting to  
18 develop such a parallelism here or was it something you  
19 were grouping expenditures and revenue under, what  
20 seemed to be logical brackets, looking at the table on  
21 Page 9.

22 DR. ENGLISH: Yes in that sense I thought it  
23 would be useful to recognize, in presenting the pattern  
24 of expenditure and taxes to the public, it would be  
25 useful to reflect the basic purpose of expenditures  
26 and the relationship of tax source to this. Now I  
27 don't have any special brief for the form we  
28 have used here. It merely suggested or it seemed to me  
29 to be one way of approaching this. I wouldn't say that  
30 the Consumers Association are even arguing too strongly





1 for this particular approach but we do feel that this  
2 kind of relating of the two processes is very important  
3 for an individual consumer to get a better idea of what  
4 is coming out of taxes.

5 COMMISSIONER PERRY: The discouraging thing  
6 of course is there is a great wealth of material available  
7 from which this sort of breakdown could be developed  
8 and yet it is very seldom presented in an understandable  
9 way.

10 DR. ENGLISH: I think this is the point. If  
11 the Government, in its budget presentation and in any  
12 other public statement upon economic policy were to  
13 adopt persuasive forms of presentation, then people  
14 would be -- I would think people would be in a much  
15 better position to judge the performance of Government  
16 and they might well find it easier to get political  
17 support. I am not an expert on politics. I would try to  
18 use this technique myself, in those circumstances.

19 THE CHAIRMAN: I thought I had observed that  
20 you relate redistribution and payments and consumption  
21 taxes. Is that not right? I can't find it now.

22 DR. ENGLISH: No, in the table it's income  
23 taxes that are opposite to distribution payments.

24 THE CHAIRMAN: I see that they are all in the  
25 table.

26 COMMISSIONER PERRY: You would have to develop  
27 some sort of thesis understandable in a continuing  
28 sort of presentation, wouldn't you?

29 DR. ENGLISH: I am very much afraid it would  
30 take a great deal more work than is represented by this





1 table; work on the corporate income tax where the debate  
2 has, so far as I am aware, not been settled yet as to  
3 just what the effect corporate taxes have.

4 COMMISSIONER PERRY: It certainly has not been  
5 settled before this Commission.

6 DR. ENGLISH: Therefore, I think for us to  
7 relate the whole table to public investment activity  
8 would be quite misleading, without more care.

9 THE CHAIRMAN: Mr. Anderson included the tax  
10 on undistributed corporate income with personal taxes.

11 COMMISSIONER PERRY: So then you go on from  
12 that and in the same theme argue that the individual  
13 taxes should be more clearly identified, more familiar  
14 and better known, more understandable to the consumer.  
15 This is a popular thesis. We have had it advanced several  
16 times. I always wonder a little bit whether it is just  
17 designed to keep the consumer in a constant state of  
18 irritation or whether the real purpose is to give him an  
19 intelligent idea of how much Government is costing him.

20 -----





/ND

1 COMMISSIONER PERRY: It is the latter that  
2 may require a good deal more than the presentation of  
3 these very broad aggregates to give him much of an indication  
4 of what he is paying in tax.

5 DR. ENGLISH: I would have to agree it would  
6 take a long time to achieve the understanding of the average  
7 person on these matters. It seems the efforts that  
8 have been made to date have been made in academic context  
9 of economists and others that don't reach the public. If  
10 it were done in public statements through Government  
11 policies there would be some hope, at even election time,  
12 there would be some hope of getting to more people  
13 with these reasonable relationships.

14 In the case of identification of tax, particularly  
15 the point we are making here is that some taxes are  
16 identifiable inevitably and, therefore, it seems reason-  
17 able to assume that this practice be followed more un-  
18 iformly as far as possible so people know whether they  
19 like income tax better than the kind of sales, , excise  
20 tax they are paying, some of which is hidden, some of  
21 which isn't. I would think that the initial effort  
22 should be made in sales area through identifying the rate of  
23 tax that is involved, anyhow, at Federal level, man-  
24 ufacturers sales tax at the retail level on the tag  
25 somewhere. This wouldn't necessarily require that one  
26 have the exact amount of tax, but at least, the rates.

27 THE CHAIRMAN: I am not sure I am with you at  
28 all on the desirability of trying to apply in the main  
29 consumption taxes and income taxes against the services  
30 that one might assign to them, which as I say is Mr.





1 Anderson's thesis too. It seems to me that the services  
2 provided different benefits to different  
3 kinds of taxpayers, and if that is true  
4 one tax payer will get something entirely different out  
5 of one form of taxation than another tax payer will. What  
6 I have in mind is the tax payer in a low bracket. He  
7 is probably on the receiving end of our distribution  
8 payments instead of income tax. Where he is in the  
9 high bracket it is exactly the opposite. It seems to  
10 me you must set two kinds of taxes so that the benefits  
11 which are being received through taxation are equal, the benefits  
12 are not insignificant, and which I think people are be-  
13 ginning to understand a little better now. I am seeing  
14 more written on the subject now. I do it myself, I  
15 must say.

16 DR. ENGLISH: I think there is a beginning of  
17 interest, there. In the past most public discussion,  
18 certainly at the political level has intended to ignore  
19 or try to play down the income redistribution effects  
20 of taxes.

21 THE CHAIRMAN: It is not a popular political  
22 subject.

23 DR. ENGLISH: Although I can't understand that  
24 because the majority are low income people. I am afraid  
25 that the reason it is not popular politically may have  
26 something to do with the kind of educational influence  
27 that people experience, dare I say it, through the  
28 press and cetera. The press doesn't represent views  
29 on taxation always that are really the views that  
30 interest the majority. This isn't surprising. This kind





1 of education most people get isn't a broad one relating  
2 particularly to their individual interests.

3 THE CHAIRMAN: So you are urging that we pro-  
4 duce something useful to that end?

5 DR. ENGLISH: Yes.

6 COMMISSIONER WALLS: In that line where you are  
7 recommending that tax should be visual to the consumer,  
8 and particularly that it should be, and dealing with  
9 consumption tax, at the retail price and ~~shown~~ separately  
10 on the price tag, don't you think, Dr. English, that  
11 would only let you know what you are paying on that  
12 particular ~~item~~ for part of the cost of Government and  
13 in no way lets you know <sup>how much of</sup> ~~what~~ the total slice of the  
14 consumption income is <sup>the</sup> / cost of Government. All that you  
15 would know really is what you are paying on that partic-  
16 ular product towards the Government or towards part of  
17 the Government. It would give the consumer no overall  
18 opinion as to what overall he is paying towards the  
19 overall cost of government.

20 DR. ENGLISH: I would be in favour of both  
21 efforts. One would involve identifying, just for  
22 example identifying the fact that in the given price of  
23 a given unit of commodity there is not only the 3 per  
24 cent or 6 per cent provincial tax but also 11 per cent  
25 federal tax. It just doesn't seem reasonable the  
26 consumer doesn't know that if it is relative to him.

27  
28 COMMISSIONER WALLS: If he knows he is paying,  
29 let us say, 5 per cent and ~~another~~ 8 per cent, ~~if we~~ were  
30 carrying ~~it~~ forward it would possibly be 8, equivalent





1 of 11 per cent of the manufacturers, if he knows he is  
2 paying a total of 13 per cent it will doesn't give him  
3 any guide, does it, as to how much government is costing  
4 him as an individual or his money, as he is paying it  
5 to government, is being spent wisely. I don't see it gives  
6 the individual any information that is not available  
7 to him to-day.

8 DR. ENGLISH: I think it would be informing  
9 the individual consumer that there is a tax on a par-  
10 ticular commodity and if he has an opinion like many  
11 of our consumers who answered the questionnaire do, con-  
12 cerning the rates of taxes on different consumer products  
13 then he would have a basis for judging whether he would  
14 prefer to see that one classified at a lower tax level.  
15 If he merely sees there is a 3 per cent or 6 per cent  
16 tax on it he may feel it is already classified at the  
17 lower level.

18 COMMISSIONER WALLS: Don't you think if he is  
19 truly interested in what Government is costing him he  
20 already knows he has to pay 11 per cent manufacturers  
21 tax?

22 DR. ENGLISH: If he is interested, yes. I  
23 think we could arouse more interest with more information.  
24 I would agree, however, with your other statement we  
25 should have something more than this. We do need to  
26 look at the taxation situation in relationship of sales  
27 tax on consumer products.

28 THE CHAIRMAN: Staying with Mr. Wall's point  
29 for a moment, you would then, I presume, believe that  
30





1 all sales taxes should be placed at the consumer level  
2 as is the provincial tax now because it is the only  
3 way it could be brought to light, I would think.

4 DR. ENGLISH: Wouldn't it be possible to identify  
5 the fact that this commodity has 11 per cent tax on  
6 it?

7 THE CHAIRMAN: I think not because if one did  
8 that it would disclose what the markups would be all  
9 the way through the piece and the merchants wouldn't go  
10 for that at all. They would resist that. Furthermore  
11 it would be virtually impossible to do with the  
12 two levels of distribution, the different markups, it  
13 would be very hard to identify the 11 per cent. As you  
14 probably are aware that 11 per cent comes out at varying  
15 rates to the consumer depending what has occurred be-  
16 tween the manufacturer and the retailer.

17 DR. ENGLISH: Yes, I was going to simplify that  
18 by identifying simply the fact there is a federal sales  
19 tax on this commodity of such and such a per cent and  
20 not indicate what the markup had been based on this.

21 THE CHAIRMAN: You might as well hang a sign  
22 up in the store.

23 DR. ENGLISH: For everyone.

24 THE CHAIRMAN: And say except for things over  
25 in that corner of the store everything else has got  
26 11 per cent tax somewhere at a lower level within the  
27 distribution process.

28 COMMISSIONER PERRY: I think, Dr. English,  
29 is really starting quite a long campaign and no doubt  
30 realizes you could come to the ultimate position of





1 being mailed a statement on January 5th or something  
2 showing you the total of all taxes that you paid during the  
3 year and receiving this statement and looking at it  
4 either with anguish or mild curiosity. I am trying to  
5 visualize what I would do from there on. I don't think  
6 it would be much different from what I am doing now.  
7 I wouldn't be able to relate it in any way to anything.  
8 I would have to know what I spent on food the previous  
9 year ~~which~~ I haven't the vaguest idea of at the moment.

10 COMMISSIONER WALLS: The average is 24 per  
11 cent of everybody's income.

12 COMMISSIONER PERRY: I think mine is higher than  
13 that. You are really assuming an all-wise and intelligent  
14 person who can relate this figure which he received to  
15 quite a few other things in his life. This is a continuing  
16 programme to which the Consumer Association could dedicate  
17 itself for quite a long time.

18 DR. ENGLISH: Yes, I think so, but I think  
19 there is a little risk here applying something to an  
20 extreme position without justification. After all...

21 COMMISSIONER PERRY: With respect, no. I  
22 think someone could work out approximately what I have  
23 paid in taxes in that period.

24 DR. ENGLISH: This could involve tremendous  
25 administrative costs.

26 COMMISSIONER PERRY: I could work it out, I  
27 think approximately from the Tax Incidence Study that  
28 the Tax Foundation has put out, at least close enough  
2 29 that the difference wouldn't be very great.

30 DR. ENGLISH: I have in mind a much more modest





1 measure to tell the consumer one more thing about taxes  
2 on the ground that he already knows things about certain  
3 other taxes and he should be equally informed of all  
4 the major taxes he pays, just what they are. I wouldn't  
5 want to stress this point in the brief, certainly not  
6 in relationship to the more general points we were  
7 talking about earlier, about the way in which government  
8 would present its expenditure pattern.

9 COMMISSIONER WALLS: Following that idea further,  
10 if you are going to show the consumer with his retail  
11 tax, and what he pays in hidden taxes or federal sales  
12 tax, by the same token you would be pretty well obliged  
13 to say you are paying  $22\frac{1}{2}$  per cent tariff on this article  
14 too.

15 DR. ENGLISH: Yes, a good idea. The trouble  
16 with that is tariff is paid sometimes on articles not  
17 imported.

18 COMMISSIONER WALLS: I mean on imported articles.

19 COMMISSIONER PERRY: You do list several ques-  
20 tions on the effect of the incidence of taxation which  
21 certainly are very much in our minds. I don't know  
22 whether you would venture any opinion as to answers  
23 yourself. Of course they fit most neatly in your Summary  
24 on Page 3. The first one you list is the relative  
25 effect of a general sales tax versus personal income tax  
26 on consumer welfare. When you say consumer welfare  
27 are you thinking there in the broadest sense of the  
28 effect of the financial operations of government on  
29 the individual or more narrowly of the effect of the  
30 various kinds of taxes and his ability to consume?





1 DR. ENGLISH: I think...

2 COMMISSIONER PERRY: Just what is the significance  
3 you attach to "consumer welfare"?

4 DR. ENGLISH: I think in this context it refers  
5 particularly to the regressiveness aspect, the pro-  
6 gressiveness aspect, consumer service -- to put it more  
7 directly, simply a question of the degree of progressive-  
8 ness or regressiveness would be the main point involved  
9 in this.

10 THE CHAIRMAN: Staying with this point a minute  
11 because that takes us right into the question of exemp-  
12 tions, I think: Consumer welfare is concerned with  
13 exemptions, exemptions with regard to sales tax are  
14 concerned with the extent to which articles are deemed to be  
15 necessary. Therefore we exempt certain broad classes be-  
16 cause we say they are necessary. This gives us some con-  
17 cern as it is very obvious only in certain quantities  
18 or up to a certain point food is necessary, just to sus-  
19 tain ourselves, and this doesn't apply to two-thirds  
20 of what I consume, I suspect, therefore the line is a  
21 wobbly line and it is extremely difficult to decide  
22 where one should cut it off. I would think there might  
23 be a better way of dealing with this whole matter.  
24 Perhaps it would be through our welfare payments, some  
25 kind of family allowance arranged in such a manner that  
26 sales taxes are refunded to families to the extent  
27 their expenditures are deemed to be in respect of  
28 the necessities of life. I must say I don't know how  
29 to do that. Have you thought about any such plan as  
30 that.





1 DR. ENGLISH: Here I am risking being a judge  
2 of policy makers, but my impression is that the reason  
3 why we have both these ~~exemptions~~ on tax and welfare  
4 payments, and why indeed we have such a variety of taxes  
5 when why if one is so good, why don't we use it? It  
6 is impossible to do it by one means and it is always  
7 easier to use both means a little bit rather than one  
8 means a lot. I think that is one of the difficulties  
9 which I have as a starting point.

10 Question 7 affirms me in this, I am not enthus-  
11 iastic about this particular position and possibly more  
12 taxation education would alter it. Setting aside  
13 that basic difficulty I am afraid I haven't got any  
14 useful comment to make on the technical problem of  
15 using welfare services. My personal inclination is  
16 the same as yours, is to use expenditure study ~~study~~ in  
17 this effort to ensure that everyone has a minimum stand-  
18 ard of living.

19 COMMISSIONER WALLS: Throughout your brief  
20 you do make certain recommendations with regard to ex-  
21 emptions, particularly as it deals with sales tax. Follow-  
22 ing up what Mr. Carter said in regard to welfare  
23 assistance I see it is recommended by your organization  
24 as well as others to exempt children's clothing. That,  
25 of course, applies to all children whether they come  
26 from wealthy families or poor families. Do you not  
27 think that to-day with family allowances and family exemp-  
28 tions ~~through~~ to income tax and with welfare looking after  
29 people that these exceptions are not sufficient to  
30 cover, that there is any logical reason why children's





1 clothing should be exempt any more than any other  
2 product?

3 DR. ENGLLSH: I think the basic point here is  
4 something like the last one I made. People seem to want  
5 a little bite here and a little bite there. My own in-  
6 clination as an economist might be to agree completely  
7 with this proposition provided that I have a chance  
8 to look at the measures you are going to use on the  
9 expenditure side, on the distribution side. I think  
10 that means the fact that certain things are exempt as  
11 necessities from sales tax the mothers of children feel  
12 that there is just as good a case for exempting other  
13 things and it is equality of treatment of items they know  
14 they must buy as necessities that gives rise to this  
15 preference.

16 COMMISSIONER WALLS: Sometimes it seems to me  
17 we keep on exempting and the Bill becomes a weak thing.

18 For example, we have this one right now with  
19 regard to building materials which you also advocate  
20 for exemption. When you read your newspapers you will  
21 see they want exemptions on building materials. In  
22 other words the materials that go into the building of  
23 their home should be tax exempt yet they are prepared to  
24 pay 15 per cent tax on the furniture and household  
25 appliances that go into the home. I don't see why one  
26 is not just as important as the other. If one should  
27 be exempt why should they both not be exempt?

28 -----

29

30





DR. ENGLISH: My first point would be that the Consumers Association as such has not recommended the exemption of building materials. In fact, I don't think in the body of the brief we mention it all except in discussion with the budget item in the latter part of the brief and in that case we don't say that we are in favour of the exemption on building materials. We simply say we wonder why it was done away with at a time when there is obviously a need for more investment or more expenditure activity.

COMMISSIONER WALLS: By your questionnaire you are expressing the cross-section of opinion of the people you represent.

DR. ENGLISH: Yes.

COMMISSIONER WALLS: And I was just wondering why your thinking would be that one should be exempted and the other, that is closely allied to it, not, beyond the fact that there has been considerable publicity opposing taxes on building materials, and that may have been the influence and that is why I say maybe the tail wags the dog on these exemptions.

THE CHAIRMAN: Perhaps the answer to Mr. Walls is that consumers are not consistent in their thinking.

DR. ENGLISH: That is right.

COMMISSIONER WALLS: We are all consumers.

DR. ENGLISH: Yes. This is the reason why we need more relating of the different items on the tax pattern in the process of talking to the public and political levels. This is all part of the same problem.

COMMISSIONER WALLS: There is another follow-up





1 on Page 13 where you make a very important statement  
2 and one that we could get a lot of guidance from your  
3 organization and that is that you emphasize that there  
4 could be a heavier tax on luxuries. Now I suppose that  
5 you have got in mind an excise tax that we have at the  
6 present time which some people interpret as a luxury sales  
7 tax but our hardest trouble is to define what is a luxury,  
8 and if we are going to have various articles carried  
9 on a graduated scale of tax, which they actually do to-day  
10 between excise duty, excise taxes and sales taxes, it  
11 would be a great help if the Consumers Association could  
12 point a finger to the luxuries on which they would be  
13 willing to pay higher taxes.

14 THE CHAIRMAN: They would get that finger chop-  
15 ped off.

16 DR. ENGLISH: There is an opinion on this, of  
17 course, in the survey.

18 COMMISSIONER WALLS: In the survey you mention  
19 about four articles, if I remember right. You mention  
20 high priced automobiles,

21 DR. ENGLISH: And then liquor and cigarettes,  
22 furs and jewellery.

23 COMMISSIONER WALLS: That is right, and you  
24 would carry it down to those items would you?

25 DR. ENGLISH: Well all that we are saying is  
26 that in the questionnaire about 10 per cent of the people  
27 replying indicated that these are the items that they  
28 would like to see classified as luxury. That is all  
29 we are saying. We are just reporting on the views of  
30 the individuals, not the position of the Association.





1 COMMISSIONER WALLS: But you do say on Page  
2 13 that you would tax luxuries at a heavier rate.

3 DR. ENGLISH: Yes.

4 COMMISSIONER WALLS: Leaving the questionnaire  
5 aside, if you tax luxuries, it would be a very great help  
6 to this Commission if you would define what is a luxury.  
7 We have had fur coats mentioned. A fur coat to somebody  
8 in a cold climate is not a luxury. Maybe it would be  
9 in other areas.

10 DR. ENGLISH: This could be a matter of a  
11 difference of opinion.

12 THE CHAIRMAN: Many people certainly do not  
13 believe their products are luxuries.

14 DR. ENGLISH: I think this general point about  
15 distinguishing between types of deluxe cars and other  
16 cars might be relevant in many lines of commodities.  
17 I don't know whether a fur coat could ever be considered  
18 really a necessity now that we are making very warm wool  
19 coats. I am not going to say this is the position of the  
20 Association. I am just asking this question about these  
21 different categories.

22 COMMISSIONER WALLS: When does a car start out  
23 as a high priced car, which is one of the things then?

24 DR. ENGLISH: I think the point of division is  
25 a very crucial one and can never draw a line in a way  
26 that would satisfy anyone.

27 COMMISSIONER WALLS: Of course, you have just  
28 pointed up the difficulty that is before this Commission.  
29 We get this type of recommendation quite often but when  
30 we get down to cases and say what is a luxury on which





1 you would pay more taxes, we run into difficulty.

2 THE CHAIRMAN: I think these things can be  
3 achieved during times of emergency, but it seems to me  
4 it is a very difficult task to pass on to our law makers  
5 to ask them to distinguish as to which products are  
6 luxuries which are set aside or designated for higher  
7 taxes.

8 DR. ENGLISH: I think the minimum way of doing  
9 it -- tax is always related to such an expression of  
10 opinion as consumers give, and if we had a larger survey  
11 and received the same kind of answers from them, if you  
12 give them the opportunity to distinguish between the  
13 things they would like to see raised a little, then you  
14 may get an answer to this. It is really an expression of  
15 opinion. It's the kind of opinion that ought to be  
16 relevant to the political leaders. I don't know that  
17 a Commission intends or thinks it is desirable to make  
18 its own survey. Ours is a very modest one and it shouldn't  
19 be the basis of policy recommendations but this is the  
20 kind of thing that possibly would answer your question.

21 COMMISSIONER WALLS: Is it really a question  
22 of luxury or what the trade will bear? We have a heavier  
23 tax on matches. I have never heard anybody complain of  
24 the fact that there is an excise tax on matches over  
25 and above a sales tax, so maybe the deciding factor should  
26 not be what you define as luxuries, but just tax those  
27 products which can carry the rate.

28 DR. ENGLISH: I think the only way that the  
29 Government can operate, in the absence of a survey or  
30 some more direct effort to discover this, is by trying





1     them out and getting the reaction to them and this is  
2     only what they do isn't it? The only thing that is  
3     valuable to our presentation in this area is that  
4     there seems to be a feeling amongst the consumers that  
5     we represent that there is confusion in differentiating  
6     the rates of taxes in the sales tax area. If this  
7     represents all Canadian opinion there are two things you  
8     can do about it: either recommend they follow this,  
9     or try to inform the public their opinion is not work-  
10    able and they ought to take another tax choice. I  
11    think Government, of course obviously will have to make  
12    this kind of a decision.

13           COMMISSIONER PERRY: Dr. English I wondered  
14    whether you have any thoughts to contribute on the  
15    relative incidence of the manufacturers' sales tax and  
16    the corporate income tax? You feel this is one of  
17    the questions that must be answered, and certainly it  
18    must. Do you have any thoughts on the matter yourself?

19           DR. ENGLISH: Well there is an implication  
20    in the latter part of the series of questions here  
21    that too often the assumption is made that corporate in-  
22    come tax has a very simple relationship to corporate  
23    behaviour. As you know much better than I, this is prob-  
24    ably the biggest part of the problem, to discover just  
25    what corporation taxes do, and whether there isn't a  
26    better way, if they do have an undesirable effect, of  
27    replacing them by, for example, a capital gains tax,  
28    some element of capital gains taxation.

29           There is a lot of discussion in the academic  
30    journals these months on this very question as to whether





1 we cannot get away from corporate taxes which do involve  
2 a measure of double taxation at times, and whether you  
3 can in the process also fill a gap, an apparent gap  
4 in taxation. I think this is something on which I am  
5 encouraged by the articles I have been reading, but I  
6 must say that when people like Richard Musgrave and  
7 Ralph Turvey, the people who are experts in this field  
8 still find some uncertainties in it, I am hesitant to  
9 pass judgment. I think this is one of the areas where  
10 research obviously is of great value, great importance.  
11 I know that our Consumers Association questionnaire  
12 seemed to feel that it would be important on one hand  
13 to fill the gap, the so-called gap in taxation rep-  
14 resented by the lack of capital gains, and the other  
15 hand that it would be -- they were not clearly carried  
16 away with the effect of higher corporate income tax.  
17 It's an interesting point for consumer opinion. I am  
18 afraid I am not giving a very satisfactory answer on  
19 this one.

20 COMMISSIONER PERRY: It is quite satisfactory  
21 in the sense that this is about the same answer or the  
22 same state of our own thinking at the present moment.  
23 This is one of the most baffling problems.

24 Your next point deals with the international  
25 competitive position. Your attention has been focussed  
26 mainly on the effect of indirect taxation, having in  
27 mind the extra stimulus you could give by relieving an  
28 indirect tax on goods that are being exported. It still  
29 has to be proven as to whether this is a significant  
30 point or not.





1 DR. ENGLISH: We call attention to the brief  
2 studied by Dr. Robertson of the Tax Foundation in this  
3 connection. It certainly does not demonstrate conclusively  
4 that there is or is not a great effect on our internation-  
5 al competitive position, but I think it does call into  
6 question the extraordinary emphasis that some people  
7 give to taxes as a factor in our competitive position  
8 and speaking now as someone who has worked on the Canadian  
9 Trade Committee which is interested in these questions,  
10 the feeling there generally would be other considerations  
11 play a bigger role in our competitive position than  
12 do taxes.

13 COMMISSIONER PERRY: What would be your view  
14 as to the effect of the very marked difference which  
15 might emerge in the level of corporate taxes between  
16 two countries, Canada and the United States?

17 DR. ENGLISH: As a result of tax cuts?

18 COMMISSIONER PERRY: Yes.

19 DR. ENGLISH: I think it would be important to  
20 the people buying in the United States but again you  
21 can over-emphasize their significance between each of  
22 our tax levels and this is frequently done, but the more  
23 important case for tax reduction has to do with the  
24 overall level of activity in both countries rather than  
25 the relative position of one country compared to the  
26 other.

27 THE CHAIRMAN: You don't refer to what, if  
28 any, inflationary effect sales tax may have on our  
29 economy. I would assume increased sales taxes would have  
30 some effect would they not? Would they tend to diminish





1 demand, which would offset the higher price?

2 DR. ENGLISH: They always raise the price,  
3 of course, automatically and some of the reaction later  
4 on is the reduction of demand. I am inclined to use  
5 the expression "inflation" in this context because it  
6 seems to me that inflation, as a phenomena, has more  
7 to do with general levels of spending but maybe I am  
8 being too much of an academic jurist on this score.  
9 I think it is useful, however, to restrict the definition  
10 of inflation to the effect of raising the general level  
11 of spending so that it produces pressure on prices.

12 THE CHAIRMAN: But increased sales taxes would  
13 clearly result in higher prices, I would assume?

14 DR. ENGLISH: Yes.

15 THE CHAIRMAN: That, generally speaking, would  
16 cause increased demand for higher wages and the effect  
17 of that would be very much like inflation.

18 DR. ENGLISH: Yes, it would depend, of course,  
19 on what would be accompanying the increase in taxes.  
20 If there were clear advantages over on the expenditure  
21 side or a reduction in other taxes, then I think the  
22 increase in taxes might not produce a demand for higher  
23 wages. It would certainly produce some increase in  
24 prices.

25 COMMISSIONER PERRY: I suppose we have pretty  
26 well covered the point that we made on the commodity  
27 taxes?

28 THE CHAIRMAN: Well one point, of course, that  
29 is recommended here leads to a great many more rates  
30 of commodity taxes, if one must have varying rates, having





1 regard to the degree of luxury in the commodities. When  
2 you increase the number of exemptions, you would have a  
3 more complex form of consumption tax and more difficult  
4 matter of administration. Some countries have very com-  
5 plex consumer taxes, and they look very difficult to  
6 run. That may be beside the point. You have not, I  
7 don't believe, dealt with the desirability of taxing  
8 services which we hear a great deal of and yet it seems  
9 to me it comes pretty close to your field. A consumer  
10 consumes service as well as goods.

11 DR. ENGLISH: There doesn't seem to have been  
12 any interest or any reaction in the questionnaire on  
13 this question. The National Association I suppose has  
14 not taken this up. That is something which I would think  
15 would be very appropriate for the Association to study.

16 THE CHAIRMAN: It would be a very significant  
17 step if that were done. That is why I mentioned it,  
18 and we have had many recommendations to the effect that  
19 consumption taxes should be extended to services, and  
20 then of course we ask ourselves which services; just how  
21 far we will go? The obvious ones you can think of,  
22 such as the barber and the hairdresser, and then does  
23 one extend it to insurance or bank interest? I don't  
24 know. Those are broad and difficult questions.

25 DR. ENGLISH: We can certainly take it up with  
26 the Association.

27 COMMISSIONER MILNE: I have a question in  
28 respect to the section of the questionnaire dealing with  
29 a pattern of deduction and you mention only in one  
30 instance was there any strong support for a larger ex-





1    emption and to me this seemed a very interesting state-  
2    ment. If there would only be one strong support of great-  
3    er exemption, there were really two questions I wanted  
4    to ask about it: in sending out your questionnaire  
5    you mentioned it went to members and non-members. I  
6    wonder if any of the non-members included liaison groups  
7    such as Mrs. Plumtree mentioned?

8           MRS. PLUMTREE: I am sorry, I cannot tell you  
9    exactly off hand. I haven't that with me. ~~Would you~~  
10   try to have a sample representation through our member-  
11   ship. In other words, send it to different parts of  
12   the country and well, you get to know your branches.  
13   For example, which ones will reply and which ones have a  
14   more active group. As you know in women's organizations  
15   particularly this is important. To what extent we have  
16   replies from liaison groups, I am sorry I cannot tell  
17   you. I can easily find out for you.

18           COMMISSIONER MILNE: The other part of the  
19   question related really to whether or not your Association  
20   had any views on this particular point.

21           DR. ENGLISH: I think possibly there might be  
22   one misunderstanding here. When I say in only one  
23   instance, it was only on one type of exemption. I am  
24   referring to only one type of exemption was there any  
25   strong support for revision, and this was the exemption  
26   for children. Quite a few people supported an increased  
27   exemption for children. Two-thirds of those responding  
28   supported increasing the exemption on children.





/ND

1 THE CHAIRMAN: I was wondering if we might  
2 not break off about now. We usually break for ten minutes  
3 in the morning. When we come back it might be helpful  
4 to take your survey and run down the questionnaire  
5 item by item and ask you to discuss it under each of  
6 the headings you come to. This is to me a very interest-  
7 ing job and I think we should spend a little time on it.  
8 Perhaps this is the best way to get at it rather than  
9 to try and cross-reference it ourselves is to ask you  
10 to go down and speak to each of the items if you will.  
11 In the meantime if you agree we will break for ten  
12 minutes.

13 ---short recess.  
14

15 THE CHAIRMAN: Mr. Mrs. Plumtre and Dr. English,  
16 do you think the suggestion I made before we broke  
17 is a good one, to keep our eye on Appendix B and ask  
18 questions as we go down Appendix B and ask you to des-  
19 cribe the results of your survey and we will at the  
20 same time check it with Appendix A as we go along.

21 DR. ENGLISH: Yes. May I make one explanatory  
22 comment first. If I may give you the numbers of replies,  
23 I wouldn't vouch for them within one or two, particularly  
24 in view of the fact that I had about 115 and only about  
25 100 that I worked at full time. This was partly  
26 because of shortage of time. I ran out of time.

27 THE CHAIRMAN: 115 replies and you used about  
28 100?

29 COMMISSIONER WALLS: In regard to this 100  
30 replies you allowed them to give first and second choice,





1 didn't you, and third choice?

2 DR. ENGLISH: In some cases.

3 THE CHAIRMAN: We will come to that.

4 COMMISSIONER WALLS: I wanted to know the set  
5 up of answers. When you total the answers you just  
6 come to about 100?

7 DR. ENGLISH: That is right.

8 COMMISSIONER WALLS: On what basis did you add  
9 in second choice?

10 THE CHAIRMAN: I think it varies by questions.  
11 If it varies by questions you can't apply it to all.  
12 Dr. English, ~~as~~ we come to each question, will come to  
13 that. Let us start with the first question and if Mr.  
14 Walls is not satisfied we can come back to his question  
15 afterwards. No. 1 "If government needs to increase  
16 its revenue which of the following taxes should in your  
17 opinion be raised? Indicate your preference of first,  
18 second, third, et cetera". What came out of that?

19 DR. ENGLISH: In the case of personal income  
20 tax, 24 gave it first preference, 10 gave it their  
21 second preference and 29 gave it third preference.

22 THE CHAIRMAN: 29 gave it third?

23 DR. ENGLISH: Yes.

24 THE CHAIRMAN: As to corporate income tax?

25 DR. ENGLISH: 19 for first, 22 second.

26 THE CHAIRMAN: 22 second.

27 DR. ENGLISH: And 13 third.

28 THE CHAIRMAN: 13 third. Retail sales tax?

29 DR. ENGLISH: 18 first preference; 24 second  
30 and 13 third.





1 THE CHAIRMAN: Manufacturers sales tax.

2 DR. ENGLISH: 6 first preference; 19 second;  
3 18 third.

4 THE CHAIRMAN: Taxes on property and wealth  
5 being real estate, capital gains, inheritance et cetera?

6 DR. ENGLISH: Yes.

7 THE CHAIRMAN: You weren't considering net worth  
8 tax there because you don't in the questionnaire ex-  
9 plain it; probably Canadians are not familiar with it.

10 DR. ENGLISH: No, I am afraid this question  
11 should have -- to get maximum results it should have  
12 been spread out a bit more because there are different  
13 attitudes about different items in the group.

14 COMMISSIONER PERRY: I wish you hadn't used the  
15 word "wealth" there. Everyone is against wealth, even  
16 the wealthy.

17 DR. ENGLISH: Yes. The first preference 29,  
18 second preference 26.

19 THE CHAIRMAN: 26.

20 DR. ENGLISH: Third preference 11. I should say  
21 in other parts of the questionnaire we will come to this  
22 where they have had an opportunity to express their  
23 views on what tax they would like to see added. Capital gain  
24 gets brought in so we are not left at a loss on this.

25 THE CHAIRMAN: In this category they don't add  
26 up to 100 so you had a fourth choice or fifth choice?

27 DR. ENGLISH: That is right or they didn't  
28 bother entering anything besides some.

29 THE CHAIRMAN: When we come to "other" what  
30 happened there? Did people write in?





1 DR. ENGLISH: Very few wrote in "other" as  
2 first choice. There were a number of people that had  
3 "other" for a second choice. I am trying to find the  
4 evidence. I don't seem to have it with me, I am sorry,  
5 but I can recall in some cases they mentioned specific  
6 luxuries, so-called luxuries. If you like I could get  
7 some information on that for you. It seemed to me there  
8 wasn't enough stress on "others" to report it.

9 THE CHAIRMAN: I think that is fine.

10 COMMISSIONER WALLS: The question now that dis-  
11 turbs me a little is that when you come to the use of  
12 sales tax you have two alternatives. It is quite  
13 possible ~~it~~ could have had the highest choice of  
14 all because if somebody puts down a certain answer in  
15 regard to retail sales tax they might not have answered  
16 the manufacturers sales tax. Do you see what I am  
17 getting at? They are giving the relative merits of  
18 the various kinds of taxes that should be increased.  
19 The fact you split ~~one~~ tax in two may very well split  
20 the votes that went to either one of them?

21 DR. ENGLISH: Yes. You mean because it was  
22 split some people didn't vote for either?

23 COMMISSIONER WALLS: That is right. I just won-  
24 dered if you had any other means of assessing the  
25 relative weight of overall commodity tax as against in-  
26 come tax and corporation?

27 DR. ENGLISH: In other parts of the question-  
28 naire we might be able to shed some light on that.  
29 The conclusion there in relation to the hidden taxation  
30 question as between retail and sales, I don't think it





1 is affected by the point you raise, given the choice  
2 between retail and manufacturing sales they chose  
3 retail because they know about it.

4 THE CHAIRMAN: The total of the first, second  
5 and third choices I think in the first question comes  
6 to 96 which means that nearly everybody had a first  
7 choice. And the second comes to 101 so everybody had  
8 a second choice and third comes to 84 so they didn't keep  
9 on going.

10 DR. ENGLISH: Some didn't feel strong enough  
11 about it.

12 THE CHAIRMAN: I would think that my total  
13 would validate what you are saying.

14 DR. ENGLISH: Comments -- did you want me to  
15 say anything? As you can imagine the comments spread  
16 over the whole spectrum of opinion which is very hard  
17 to try and summarize, but in the case of taxes I will try.  
18 On the personal income tax there seems to have been a  
19 difference of opinion, a very sharp difference of opinion  
20 because there is a lot of first choices and third choices  
21 and not very many second. I think the people who were in favour  
22 of the use of personal income tax, more often than not,  
23 were concerned about its equity, were impressed with its  
24 equity. This comes not only with this question, but  
25 in other parts of the paper as well where personal  
26 income tax becomes involved and in one or two cases  
27 they mention specifically it wasn't hidden, they knew  
28 about it. I wouldn't say this was the only reason but  
29 this was mentioned as a reason for supporting personal  
30 income tax.





1 COMMISSIONER WALLS: I would like to go back  
2 to the question we were discussing before because I  
3 have done a little bit of mathematics. While you have  
4 100 questionnaires and whereas in most cases as the Chair-  
5 ~~man has stated~~ your first choices were up above 90 per cent  
6 when it comes to retail sales tax your total of the  
7 first, second and third choices only total 85. When it  
8 comes to manufacturers sales tax your first, second  
9 and third choices comes to 37 so that you have 43.

10 THE CHAIRMAN: 43 and 45 is retail.

11 COMMISSIONER WALLS: 18, 24, 13,55 and 6, 19,  
12 18, 42. Between these two you now have 97. That is  
13 what I was getting at. When you come to sales tax your  
14 vote was split which really didn't give you the overall  
15 opinion of how sales tax was weighted in proportion to  
16 other taxes.

17 DR. ENGLISH: It would. You have the privilege  
18 of adding them together. We don't claim in the question-  
19 naire that people were against sales tax. We merely  
20 suggested these replies do indicate that at first choice  
21 more people were interested in tax on capital gains  
22 and the like than they were on the others. Even if  
23 you add the sales tax up you don't get as many as  
24 chose capital gains and similar tax.

25 THE CHAIRMAN: You get more than you do for  
26 income tax if we weight first, second and third choice,  
27 3,2,1, something of that kind, we would get a higher  
28 score for the combined sales tax than we would for  
29 personal income tax. I am not sure if that would be  
30 a fair way to weight them but it certainly is one approach





1 to it.

2 DR. ENGLISH: I ~~think~~ however, that even  
3 though this could be done that the impression that  
4 the questions and answers give, and this sometimes is  
5 in the comments rather than in the voting, indicates  
6 a clear distaste for the manufacturers sales tax and  
7 I think this point is not ~~affected~~ -- it is proven  
8 by the answers I ~~have~~ just given on that question.  
9 Whether the sales tax is preferred over income tax or  
10 not I agree is not clearly demonstrated in these answers.

11 COMMISSIONER WALLS: I have one other question.  
12 Did you give them anything preparatory on different types  
13 of sales tax so that they had a basis of deciding be-  
14 tween manufacturers or retail or any other type of  
15 tax at all? Has there been any discussion within your  
16 organization as to relative merits?

17 MRS. PLUMTRE: May I answer. At the National  
18 level we have had discussions, this is cross-country,  
19 but this questionnaire where we sent for individual  
20 answers there was no previous information given at all.  
21 On this particular point I think ~~to~~ the discussions  
22 that we had, and it was quite interesting, from the  
23 people taking ~~part~~ on the people taking part in the  
24 discussion there was a very definite distaste for the  
25 manufacturers tax because they don't know what they  
26 are paying. This was one thing that seemed to come out  
27 in all the discussions. People don't understand why  
28 they are paying taxes, how they are paying taxes. They  
29 are much more willing to accept taxes. The individual  
30 replies had absolutely no discussion at all. I think





1 that sort of bears ~~it~~ out again.

2 THE CHAIRMAN: Distaste for the manufacturers  
3 tax?

4 MRS. PLUMTRE: They realize that they don't  
5 know -- one thing that came up, for example, in one dis-  
6 cussion they were asked what ~~products~~ bear ~~for the~~  
7 manufacturers tax. One of our executives, a chartered  
8 ~~accountant~~ said it is a very difficult question to answer  
9 because it changes with Orders-in-council and people  
10 don't know and sometimes an individual consumer will  
11 come up against a bill -- he may have had some printing  
12 done and get a bill which says 11 per cent sales tax.  
13 He may never have known there was a federal sales tax  
14 and he says why do I have to pay that. When people don't  
15 know about a tax they object to it. They like to know.  
16 They are coming to realize it accumulates because it  
17 is put on at the manufacturers level and it accumulates  
18 other taxes as it goes up. This we found was one thing  
19 that wasn't generally liked.

20 THE CHAIRMAN: They resent what is called  
21 pyramiding.

22 MRS. PLUMTRE: Pardon?

23 THE CHAIRMAN: They resent what is commonly  
24 called pyramiding?

25 MRS. PLUMTRE: That is right.

26 THE CHAIRMAN: To whom was this survey  
27 addressed, to your members I think you said. Did you  
28 just choose certain members?

29 MRS. PLUMTRE: We chose certain branches. We  
30 certainly sent it to all our directors and all our officers





1 anybody who was a chairman of a committee. Anyone who  
2 acted in the organization we felt should take part in  
3 forming our policy. We then sent a number to our branches  
4 and said would you please have ten members fill this in,  
5 and give 2 to each member and ask them to get someone  
6 who is not a member to fill this in. In other words,  
7 perhaps we are vain, but we feel we are a little better  
8 informed than other consumers and we are trying to  
9 get some comment outside our organization but the basic  
10 central core of the questionnaire returns, I would say,  
11 did come in from people who were active right across  
12 the country either on committees or provincial branches  
13 or presidents of local branches.

14 THE CHAIRMAN: These are the professional people  
15 or people who would be pretty well informed on the  
16 matters?

17 MRS. PLUMTRE: I wouldn't use the word "pro-  
18 fessional". Ours is a completely voluntary organization  
19 and the people who are our presidents of branches are  
20 just housewives, as a rule, but we like to think they are  
21 people who have an interest in what is going on around  
22 them but I don't think we could say they were profession-  
23 al consumers.

24 COMMISSIONER WALLS: I notice you say half of  
25 those replying had taken courses in economics.

26 MRS. PLUMTRE: We asked them, to try and find  
27 out what kind of people they were.

28 DR. ENGLISH: I think in that respect I was  
29 surprised. I think that some of the courses were fairly  
30 limited and I don't know whether they really meant





1 university courses. Having taught an elementary course  
2 in economics I am not sure they would make all that much  
3 progress on the subject of taxation as the result of  
4 one course.

5 THE CHAIRMAN: I suspect some of these might  
6 be household economics.

7 MRS. PLUMTRE: That might be all right.

8 DR. ENGLISH: That might be all right. The point  
9 perhaps I should mention at this stage is that attached  
10 to the questionnaire we sent out was a sheet addressed  
11 to the people who were answering it. I didn't include  
12 this in the appendix because some of it was purely a  
13 matter of administrative function. I will read the  
14 first little paragraph to show you what instructions we  
15 gave them in this connection:

16 "Following receipt of comments on the  
17 draft of the Tax brief from some directors  
18 and various branches of the Association  
19 the Executive has discussed the draft  
20 and decided that before it is put in  
21 final form it would be useful to circulate  
22 to Directors and some branches an  
23 questionnaire concerning the views of  
24 members on a number of taxation questions.  
25 This decision has been encouraged by the  
26 receipt of a letter from the research  
27 director of the Royal Commission requesting  
28 our opinions on several specific ques-  
29 tions. It is emphasized that what we  
30 want are the thoughtful opinions of





1 "consumers. We don't expect branches or  
2 individuals to do any reading or research  
3 before completing the questionnaire."

4 In other words we were anxious to get as much  
5 as we could of a cross-section of consumers rather than  
6 giving further self-instruction.

7 THE CHAIRMAN: With regard to item No. 5 did  
8 you indicate how many of the 29 first choices would be  
9 thinking of capital gain tax. You said you believed  
10 some of those were.

11 DR. ENGLISH: I think the more exact answer  
12 to that is in another part of the questionnaire where  
13 they are asked to suggest taxes which would replace  
14 taxes that they asked us to eliminate. There were  
15 8 preferences for capital gains as opposed to 13  
16 preferences for luxuries, and 10 per cent for personal income.  
17 It wasn't a very strong preference in that case, but  
18 I believe it keeps coming up in different parts of the  
19 questionnaire. Specifically I could give you a more  
20 accurate answer to that by mail, if you wish.

21 THE CHAIRMAN: We would sir thank you very much.

22 COMMISSIONER GRANT: In your replies did you  
23 get fairly wide coverage? Did you get replies from all  
24 provinces?

25 DR. ENGLISH: Yes, certainly from most. The  
26 provinces from which replies are coming are stated in  
27 sending them along to me and I had the impression  
28 they came from just about every province.

29 COMMISSIONER GRANT: Would you express an  
30 opinion to yourself as to how indicative this survey is





1 of public opinion?

2 DR. ENGLISH: Well, it is fairly difficult  
3 to do. I think that there is probably a greater in-  
4 terest in taxation questions on the part of the people  
5 replying than there would be in the general public. This  
6 is quite likely because so many of them are members of  
7 the Consumers Association and undoubtedly they have more  
8 interest in these matters than a lot of other people  
9 would have.

10 I also felt it reflected the state of knowledge  
11 in a fairly general way because there was a tremendous  
12 variety of knowledge reflected in these replies and on  
13 the whole there is an indication of a great deal more  
14 need for information. I would take this as a pretty good  
15 cross-section.

16 COMMISSIONER GRANT: Do you think you would  
17 have had any more accurate expression of opinion than  
18 that if you had sent 3,000 questionnaires out and got 1,500  
19 replies back, 3,000 questionnaires out and 1,500 back?

20 DR. ENGLISH: That is a very difficult question.  
21 I believe if one were able to conduct a completely  
22 random sample, to take the usual precautions about sampling  
23 you might have a somewhat more accurate reflection of  
24 the general public's point of view. We weren't looking  
25 for the general public's point of view, in a sense,  
26 although we think we came close to it. I would feel that  
27 it is a pretty accurate reflection of what you would  
28 get from the people more generally, though you might get  
29 a slightly higher incidence from a general public survey  
30 of disinterest, unwillingness to answer very much of  
the questionnaire at all.





ND

1 THE CHAIRMAN: A high degrees of accuracy  
2 in statistical sampling would be accomplished with 400  
3 but I would have thought that if it were a cross-section  
4 it would be fairly representative. Of course, I am  
5 very dubious ~~that~~ to the people to whom you addressed  
6 this ~~are~~ a fair cross-section. It is a fair cross-section  
7 of the kind of people that you chose.

8 DR. ENGLISH: Yes, and it comes fairly close  
9 to my own impression of what public opinion would be,  
10 although I am always shocked by the fact that public  
11 opinion is not as well informed as one always hopes and  
12 by, I think, the remarkable conservatism on some matters  
13 of public opinion. You always feel that people will  
14 be more interested in what one thinks of as the lower  
15 income group attitudes than they are.

16 COMMISSIONER WALLS: I just have one other  
17 question in regard to the questionnaire in general, and  
18 that is did you, perchance, get the ages of the people  
19 that replied? Of course there are some questions later  
20 on, and I will deal with that later on. I think age  
21 would affect the type of answers given.

22 THE CHAIRMAN: I don't think they asked for any  
23 more than is in the questionnaire.

24 DR. ENGLISH: No. The whole questionnaire is  
25 here.

26 COMMISSIONER WALLS: I will deal with this  
27 later on.

28 DR. ENGLISH: I think that is a very important  
29 point. It was reflected in the answers, quite definitely.

30 COMMISSIONER BEAUVAIS: Would you remember how





1 many answers you had favouring an increase in estate  
2 taxes?

3 DR. ENGLISH: There were practically none.

4 COMMISSIONER BEAUVAIS: Practically none?

5 DR. ENGLISH: No.

6 COMMISSIONER BEAUVAIS: That is very important  
7 because it is grouped with capital gains.

8 DR. ENGLISH: Yes. I would say that in specifying  
9 the kind of tax on property that they would like, capital  
10 gains got by far the most mention.

11 THE CHAIRMAN: Inheritance tax is the least?

12 DR. ENGLISH: I don't know, unless property  
13 taxes, real estate property taxes has got much more.  
14 I can check this again. I don't recall they aroused  
15 much interest at all.

16 THE CHAIRMAN: I would appreciate you mailing  
17 in any information that you have on that.

18 COMMISSIONER GRANT: With reference to the fourth  
19 part of the first question and the pronounced opposition  
20 to the manufacturers' sales tax, did you draw any con-  
21 clusion, Dr. English, as to if that pronounced opposition  
22 to the manufacturers' sales tax implies a support for  
23 the retail sales tax with a view to raising some money  
24 that is now being raised under the manufacturers' sales  
25 tax?

26 DR. ENGLISH: I think that the answers as  
27 given reflected pretty well the position that people  
28 wanted to give on this. It seemed to me that three  
29 times as many people wanted retail sales tax as the  
30 manufacturers. This indicates at least a good many





1 people would be happy to see the shift from one  
2 category to the other. I would say there are other  
3 people who don't want any sales tax and they indicate  
4 their preference for other forms of substitution.

5 COMMISSIONER GRANT: It is not conclusive,  
6 in any event?

7 DR. ENGLISH: It is not a simple case of trans-  
8 ferring from manufacturers to retail.

9 THE CHAIRMAN: It is conclusive to the point  
10 that people who favour a sales tax in the majority  
11 favour retail as against manufacturers?

12 DR. ENGLISH: That is right. I think it is  
13 also true to say that if you add the two sales taxes --

14 COMMISSIONER GRANT: Just a moment on that. How  
15 can you draw that conclusion when they have five choices  
16 of raising money for revenue purposes and you don't  
17 know which way each person is voting? How do you know  
18 the person that is against the manufacturers' sales tax  
19 is not in favour of increasing the personal income tax?

20 DR. ENGLISH: We don't. I am sorry if I gave  
21 the wrong impression. The points I think that are justified,  
22 on the basis of the tally of these answers, taking  
23 even the first and second choices there are 25 people  
24 who favour manufacturers' sales taxes and 42 retail sales  
25 tax. The first choice proportion is even higher. How-  
26 ever, there are 24 plus 19 -- 43 plus 29, over 70 people  
27 who prefer other taxes as first choice to the retail  
28 or manufacturers' tax. Now Mr. Walls mentioned this  
29 may be because in some cases they weren't given a choice  
30 of having a sales tax per se as the overall category but





1 even then I think the evidence is pretty strong that  
2 there are a lot of people who do not want sales taxes  
3 at all relative to other taxes.

4 The evidence is also strong enough people ~~did~~ want  
5 it so that a retail sales tax as a justification for  
6 continuing it -- I don't think you can say that there  
7 is any one tax that gets the nod in this picture.

8 COMMISSIONER GRANT: As I read this survey,  
9 25 people in the first and second grouping of 4 are  
10 against the manufacturers' sales tax or they are against  
11 raising the manufacturers' sales tax which is really the  
12 question.

13 DR. ENGLISH: That is right.

14 COMMISSIONER GRANT: They are not being asked  
15 under 1 as to whether they favour taxes or not. They  
16 are being asked whether the tax should be raised?

17 DR. ENGLISH: Yes.

18 COMMISSIONER GRANT: They are against raising  
19 the taxes but 42, taking the first and second, are in  
20 favour of raising the retail sales tax?

21 DR. ENGLISH: Yes.

22 COMMISSIONER GRANT: Therefore, you have a  
23 difference of 17 people in those two, and you may find  
24 that that 17 have their preference split among one, two  
25 and five?

26 COMMISSIONER PERRY: I have another way of  
27 looking at this. I regard the second and third choice  
28 negative votes really. I add up the second and third  
29 choices in each category. They always exceed the first  
30 choice. Therefore, I come to the conclusion that no one





1 is in favour of anything.

2 DR. ENGLISH: Yes.

3 THE CHAIRMAN: It is pretty obvious nobody likes  
4 taxes.

5 DR. ENGLISH: That is why we asked the question  
6 in terms of raising taxes rather than the other way. I  
7 think it is very important that you have to face up to  
8 that fact. The only thing obviously you can get out of  
9 it is the indication of direction, I think.

10 COMMISSIONER PERRY: It tells you to what people  
11 are the least opposed at any rate.

12 THE CHAIRMAN: That is all that has been asked  
13 for.

14 COMMISSIONER PERRY: There is sort of a basic  
15 bias against questionnaires anyway so in most cases  
16 they inevitably reflect the views of the more intelligent  
17 group of the population. The group who are interested,  
18 are not intelligent enough to fill in the questionnaire.

19 DR. ENGLISH: Yes, but insofar as general public  
20 opinion is concerned, assuming that other people are in-  
21 different, probably this is the group that is pretty  
22 important to know about.

23 COMMISSIONER PERRY: Yes. These are likely the  
24 opinion holders.

25 THE CHAIRMAN: Shall we move on. Let's have  
26 the score on two.

27 DR. ENGLISH: This is very simple. (a) Do  
28 sales taxes affect your decisions to purchase goods  
29 and services? 62 no. 39 yes.

30 If so, at what times and on which goods and





1 services? The answer there was in all cases I think  
2 it is true to say luxury goods or expensive goods or large  
3 items. This kind of answer. In a few cases they mention  
4 it would delay their purchases which I think is a more  
5 accurate statement. An interesting thing throughout the  
6 questionnaire, some are biased, everybody mentioned  
7 holidays would be affected.

8 COMMISSIONER WALLS: I notice the heavy pre-  
9 ference for vacations which I will deal with later.

10 THE CHAIRMAN: B?

11 DR. ENGLISH: Under B there is --

12 THE CHAIRMAN: Let me read it:

13 (b) The present sales tax is 11% at the  
14 Federal level and 3%-6% at the Provincial  
15 levels. There are some exemptions, but  
16 in general all goods pay the same rate.  
17 If it were applied more progressively,  
18 so as to provide the same revenue, which  
19 goods and services would you like to see  
20 taxed at lower than the average; at  
21 higher than the average; and at the  
22 average level?"

23 What did you get on that?

24 DR. ENGLISH: I think the full answer to this  
25 is in the brief.

26 THE CHAIRMAN: That is on Page 4 under the  
27 heading "sales tax" is it?

28 DR. ENGLISH: Yes. I haven't got the full tally  
29 here, just a summary. There are individual answers  
30 which should be added to this.





1 COMMISSIONER WALLS: That is one where I was  
2 surprised to find that they are prepared to pay  
3 taxes on what went into the house but not on the materials  
4 that built the house.

5 DR. ENGLISH: Yes. I think at that point I  
6 would emphasize that people were affected by the current  
7 discussion in the newspapers. This was in July.

8 COMMISSIONER WALLS: In regard to drugs, you men-  
9 tioned that specifically in your brief. You mentioned  
10 in your brief you would only have ethical drugs ex-  
11 empt. Are there ~~not~~ many drugs that are patent drugs  
12 that more of your consumers use?

13 MRS. PLUMTRE: I think people buy more drugs  
14 without prescription naturally, but they are not always  
15 a necessity. When you buy a prescription drug, an ethical  
16 drug, this becomes a necessity because you are told  
17 by your doctor you need it and certainly there seems  
218 to be a feeling amongst the members of our Association  
19 that this should not carry a federal sales tax because  
20 this is discriminating against you because you are ill  
21 and therefore you must pay that tax. When you buy  
22 things like headache powders and all the things we tend  
23 to buy from band-aids up, they are not always a necessity.  
24 Sometimes we think we need these things and I think  
25 there is a distinction there because you are told by  
26 your doctor to buy this, you need it.

27 THE CHAIRMAN: Did nobody mention children?

28 COMMISSIONER WALLS: The only part that rather  
29 interested me in that is the fact that under the pre-  
30 scription the doctor quite often adds to it you should





1 take a 222 or aspirin. Then you would be wise to buy  
2 your year's supply on that prescription and get it  
3 tax free as against having to regularly buy it as a  
4 patent medicine.

5 MRS. PLUMTRE: That is true. I suppose there  
6 are always some people out to try to beat the taxpayer.  
7 isn't there?

8 COMMISSIONER WALLS: Yes, quite a few some  
9 people.

10 THE CHAIRMAN: 3, 303am Compare the effect  
11 upon your spending of a reduction in income tax of  
12 \$120.00 in one year. (1) If the deduction takes the form  
13 of \$10.00 less deducted at source per month (2) if it  
14 takes the form of a rebate of \$120.00 paid at one time.  
15 Indicate whether you would spend more in one case  
16 or the other and whether you would spend on different  
17 things. You dealt with that didn't you Dr. English?

18 DR. ENGLISH: Yes.

19 THE CHAIRMAN: Is anything further to be  
20 said on that?

21 DR. ENGLISH: Not that I can think of. It's  
22 the last paragraph on Page 7.

23 COMMISSIONER WALLS: Does that not deal more  
24 with your later question No. 6 of a \$500.00 increase in  
25 income or 5%?

26 DR. ENGLISH: No. Of course it does relate  
27 to that but I think the question really as we asked  
28 it has to do with -- no, I am sorry, paragraph 18 has  
29 to deal with this only. It, of course, is of particular  
30 interest in stabilization policy, and this kind of





1 thing. I think the report given is really a full in-  
2 dication of the answer. People who favoured the \$10.00  
3 a month did not indicate clearly what effect it would  
4 have. The impression one got is it would not effect  
5 very much the pattern of their spending as I think any-  
6 one of us would feel it is a small amount which more  
7 people might save because they did not get to the point  
8 of thinking of ways of spending it.

9 The other case where it was a lump sum, this  
10 aroused their imagination and they began to think of  
11 ways in which they would spend it and there was some  
12 reaction in the brief in spending on a large item, a  
13 holiday or a house, pieces of household equipment.

14 COMMISSIONER GRANT: If you were sending your  
15 questionnaire out to-day, it might be more timely to  
16 say: compare the effect upon your spending of an inc-  
17 rease of income tax allowance of \$20.00 a month.

18 DR. ENGLISH: This comes, in a way, in another  
19 area. This question really had to do with the two  
20 ways more than the consumer vacation.

21 THE CHAIRMAN: Mrs. Plumbtre, I have got to ask  
22 to be excused. I have an appointment in Toronto this  
23 afternoon. I am going to catch the plane now. The  
24 rest of the Commission will carry on and complete the  
25 questioning. I want to say before I leave thank you very  
26 much indeed and particularly for the job that you  
27 have undertaken in this questionnaire. It is extremely  
28 interesting to us and I shall look forward, when I  
29 return, to getting a full report on the answers that  
30 have been made. I am sorry to run. Please forgive me.





1 I have asked Mr. Perry to be so kind as to continue in  
2 my absence.

3 ACTING CHAIRMAN: That disposes of question No.  
4 3.

5 DR. ENGLISH: 22 people mentioned that they  
6 would like to increase their savings from rebates. Fairly  
7 large number in that group.

8 COMMISSIONER WALLS: That is one of the reasons  
9 why I asked the age because naturally the older  
10 applicant would be more inclined to put any increase  
11 into savings, whereas, the younger would spend it on  
12 amusement and cars and travel.

13 DR. ENGLISH: Children is what I would say.

14 COMMISSIONER WALLS: Well it all depends on  
15 what term may be used by "younger". As you get older,  
16 it changes, but it seems to me that your replies to  
17 quite an extent on things of that calibre would have  
18 to depend upon the age of the people because their  
19 wishes change. Do you agree with me?

20 DR. ENGLISH: Yes. There was a variety of age  
21 groups represented in the answers. I imagine that there  
22 may have been somewhat of a bias in the direction of  
23 people older than 35, but I don't think probably there  
24 is -- at 30, anyway -- but I don't think there is much  
25 else that comes out in it by way of an indication of  
26 the age pattern. There probably were fewer people in  
27 the 20's in the replying group than you would get  
28 from a cross-section of the population.

29 COMMISSIONER WALLS: I am not too sure that  
30 the percentage that wanted to travel, which is quite





1 high, is advantageous to our position on a ~~tax commission~~ commission  
2 because based on the customary practice of Canadians,  
3 without a doubt they spend that all in the United  
4 States.

5 ACTING CHAIRMAN: That leads us back to four  
6 does it not? The answers there were quite interesting,  
7 particularly in the lack of support of a higher general  
8 exemption.

9 DR. ENGLISH: It's 50/50.

10 ACTING CHAIRMAN: Well yes, that is true but  
11 one would have thought it would lean a little more heavily  
12 in favour.

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DR. ENGLISH: In a way the bias is in that direction because those who don't favour raising it favour leaving it alone. They don't favour lowering it. Presumably there are not too many people who would be unhappy about raising it. There is another significant thing that occurs in the children's exemptions. For personal exemptions for spouse 37 supported raising it, 40 supported leaving it as it is and 2 supported lowering it. Personal exemptions for children, 64 supported raising it, 28 leaving it the same and 1 lowering it. The allowance for medical expenses ...

ACTING CHAIRMAN: Very small protest

COMMISSIONER WALLS: Possibly some old bachelor.

DR. ENGLISH: 36 supported raising it, 46 supported leaving it the same and 10 supported lowering it.

COMMISSIONER BEAUVAIS: That is for medical expenses.

COMMISSIONER PERRY: Are you sure what they had in mind was lowering...

DR. ENGLISH: I think some of these people probably -- you mean whether they meant...

ACTING CHAIRMAN: The floor, 3 per cent?

COMMISSIONER WALLS: In the brief you mentioned a number thought the \$100.00 should be lowered.

DR. ENGLISH: Yes. I think I watched for that problem, Mr. Perry. I don't know whether one can always detect, I am not sure one can always detect. I could go back. It seemed to me the case was very strong in any case. General allowance for charitable donations and medical expenses, 10 per cent, raise it,





1 47 per cent leaving it the same and 29 per cent lowering  
2 it including 16 that suggested it should be abolished.

3 ACTING CHAIRMAN: The large group in favour of  
4 lowering is interesting. I would think these are strong  
5 church people who in general feel that an element of  
6 the community is not earning its way through this over-  
7 all allowance?

8 DR. ENGLISH: That is quite a possible inter-  
9 pretation. The suggestions for replacing lost revenues  
10 includes this variety. I mentioned this in passing  
11 earlier. These figures that I give now are figures that  
12 involve quite a bit of interpretation. Sometimes  
13 people say things a little bit vaguely when they are  
14 given a chance to spell it out in words. I think the  
15 general indication of the variety of opinions are personal  
16 income tax 10 per cent -- that is the number replying  
17 again -- capital gains, 8, luxuries in general, 13 --  
18 they just call them luxuries. Retail sales and manufact-  
19 uring sales tax together just 4, co-operatives 4,  
20 liquor and cigarettes, total of 3.

21 COMMISSIONER WALLS: Why wouldn't you add that  
22 to your luxuries?

23 DR. ENGLISH: Because I was trying to specify.  
24 As you can see there is quite a dispersion.

25 COMMISSIONER WALLS: What was the liquor?

26 DR. ENGLISH: Three. These are three replies,  
27 not percentages. A lot of people didn't bother filling  
28 in this section.

29 ACTING CHAIRMAN: The personal income tax is  
30 interesting.





1 COMMISSIONER WALLS: That means there are a  
2 little more than one-third of your people voting on  
3 that question.

4 DR. ENGLISH: Yes. You see a lot of people  
5 didn't have to answer that because they were in favour  
6 of leaving the revenue the same. No. 5?

7 ACTING CHAIRMAN: No. 5, yes, please.

8 DR. ENGLISH: This is a question I would like  
9 to make a general comment on but I feel the answers  
10 here are more difficult to get any meaning out of than  
11 some of the other questions because I think some people  
12 react to the use of the word "subsidies". I don't know  
13 why I allowed myself to put that word in because you  
14 know people, as soon as they see it, react against it.

15 ACTING CHAIRMAN: Support is a much more positive  
16 word.

17 DR. ENGLISH: Of course that may be too positive.  
18 I think it was quite clear people were thinking entirely  
19 of federal subsidization in replying because they made  
20 remarks which wouldn't be in keeping with what we know  
21 the public attitude towards provincial education to  
22 be. I think you have to be very careful about inter-  
23 preting this answer. Even this was quite an even  
24 split, 44 preferring deductions and 35 preferring sub-  
25 sidies and 11 thinking both were necessary. I would  
26 imagine that the question leads away from this last  
27 answer which would be the answer most people would pre-  
28 fer to give, that both are necessary.

29 COMMISSIONER WALLS: I didn't get the last one.

30 DR. ENGLISH: 11 specified that both subsidies





1 and deductions were necessary, even though they were asked  
2 to choose between they rebelled against that ~~choice~~. I I  
3 think this is a reflection of the wide body of opinion  
4 in this. There is an indication of some lack of  
5 appreciation that a lot of people don't pay income tax,  
6 a point which I think shows that they need to be informed  
7 that such things as children's allowance are directed  
8 towards those people who don't get any benefit from  
9 income tax exemptions at all, family allowance. It is  
10 surprising people wouldn't think of it, but when you  
11 are a tax payer you go along with the impression every-  
12 one is like you paying considerable income tax.

13 COMMISSIONER PERRY: Six we have dealt with,  
14 have we.

15 DR. ENGLISH: Yes.

16 COMMISSIONER WALLS: There was one rather  
17 amazing answer to me, the response to the effect upon  
18 reduction of purchases following a \$500.00 decrease in  
19 income. There were 16 who said they would take it off luxury  
20 foods. I wonder how many of your consumers spend \$500.00  
21 on what would be called luxury foods a year?

22 DR. ENGLISH: In these answers, of course,  
23 sometimes people give several answers. That is one point  
24 that should be made. When they answered this they  
25 might have given several answers and I included them  
26 all.

27 COMMISSIONER WALLS: In the \$500.00 they might  
28 say they would take off this and this and this.

29 DR. ENGLISH: Yes.

30 COMMISSIONER WALLS: I assumed they would take





1 it all off luxury foods and I thought you must eat  
2 pretty good in the east here.

3 DR. ENGLISH: We had a lot of answers from  
4 the West Coast, which incidentally is where I come from.

5 ACTING CHAIRMAN: Number 7? Have you anything  
6 more?

7 DR. ENGLISH: I didn't blame the people receiving  
8 the questionnaire for having difficulty with this and  
9 I knew this would be the case ahead of time. In fact  
10 I think it does actually reflect the feeling that people  
11 have that all these things are important and they can't  
12 choose easily between them. The first choice, there  
13 were 35 who said this is their first choice, 34 second  
14 and 36 third. It is hard to judge. The second one,  
15 26 first choice, 44 second choice and 37 third. The  
16 third one, 46 gave it first choice -- there is a little  
17 emphasis here -- 29 second and 31 third.

18 ACTING CHAIRMAN: The predominance of the third  
19 is not surprising in view of the leaning towards personal  
20 income tax in most of the earlier questions.

21 DR. ENGLISH: Throughout the questionnaire  
22 replies there is a strong feeling that people have  
23 an equity sense in taxation. They think justice between  
24 the groups is important.

25 COMMISSIONER WALLS: I am surprised in the  
26 first one. Maybe it is because I don't understand the  
27 question, the high incidence of the first choice  
28 to provide goods and services which would not otherwise  
29 be adequately supplied. What services would they be  
30 that are not adequately supplied?





1 DR. ENGLISH: I ~~think~~ defence is the obvious  
2 one, but it really implies the general expenditure pattern  
3 of government because presumably if these things were  
4 adequately supplied probably they wouldn't have developed  
5 such a big participation on the part of government in  
6 the economy.

7 COMMISSIONER WALLS: You are dealing with goods  
8 and services as it applies to the government budget  
9 not as it applies to the consumer.

10 DR. ENGLISH: That is right.

11 COMMISSIONER WALLS: I see. I am sorry, I  
2 12 misunderstood.

13 DR. ENGLISH: Social consumption.

14 ACTING CHAIRMAN: Not much faith in the the-  
15 government as a stimulus to economic activities,  
16 as an economic factor.

17 DR. ENGLISH: Again they must have been reading  
18 from newspapers.

19 ACTING CHAIRMAN: You did say on No. 8 about  
20 half the people had some sort of economic course.

21 DR. ENGLISH: Just 50. And some of these  
22 answers -- I wonder how close it was as to what we  
23 think of as economic courses to-day. Some state very spec-  
24 ifically 30 years ago I had a course, and this would  
25 be very different to the courses of to-day.

26 It wouldn't touch on the modern theory  
27 of stabilization and I think this is reflected in the  
28 answers.

29 COMMISSIONER WALLS: You will agree it shows  
30 a remarkably high degree of intelligence among your question-





1 main recipients that there are half that have taken economic  
2 courses.

3 ACTING CHAIRMAN: If that is the degree of  
4 intelligence.

5 DR. ENGLISH: I hope you won't ask me to  
6 correlate the intelligence of those who had the economic  
7 course with the answers they have given.

8 ACTING CHAIRMAN: Did you tell us the extent of  
9 non member participation? I think you did.

10 DR. ENGLISH: Yes, one-quarter, about 26.  
11 I have a feeling in quite a few instances these members  
12 were curious family, mainly husbands as in certain  
13 subjects they gave what I would call businessmen's  
14 answers in this context.

15 COMMISSIONER WALLS: You don't think they  
16 were made to support the wives' answers?

17 DR. ENGLISH: The evidence isn't clear on this;

18 ACTING CHAIRMAN: Is there anything else any-  
19 one wants to raise on the questionnaire?

20 DR. ENGLISH: I would say in connection with  
21 the general comments, Mr. Perry, that they mentioned under  
22 this heading too much spending and inefficiency in  
23 government, and in a few instances, and this should  
24 encourage the Commission -- the Glasgow Commission was  
25 mentioned specifically, in other words Commission reports  
26 do attract public attention and in this case it had  
27 to do with quite a number of answers on this point, --

28 ACTING CHAIRMAN: The Commission is more con-  
29 cerned with whether its report is going to attract  
30 Government's attention.





1 DR. ENGLISH: I agree.

2 ACTING CHAIRMAN: Would you mind returning to  
3 just one point raised in the brief. I would like to  
4 discuss what with you simply because you comment  
5 on it at some length. It is on Page 4, this question  
6 of sources of income or what I suppose you could say  
7 is also the quality of income against the quantity,  
8 paragraph G on Page 4.

9 DR. ENGLISH: The summary, I am sorry.

10 ACTING CHAIRMAN: I have gone back to the main  
11 brief, the summary of the main brief. There is quite  
12 a bit more extensive comment in the body of the brief.  
13 I am just concerned with the last three or four lines  
14 where you express the hope that the Commission will  
15 endeavour to identify the sources of income difference  
16 which are important to the fashioning of rational fiscal  
17 as well as other policy. In the brief you have a very  
18 extended comment on the nature of the sources of income.  
19 I think I know what you are getting at, but I would  
20 like to have you explain so I am sure I understand.

21 DR. ENGLISH: I really welcome this question  
22 because I think the tendency is to assume that the  
23 consumer demand is the starting point for all economic  
24 activity and that nothing should be done to disturb the  
25 play of the economy in responding to consumer demand.  
26 In fact, of course, the consumer demand that producers  
27 encounter is a reflection of the present distribution of  
28 income and it is not necessarily true to say that this  
29 is the optimal or best in any sense. The reason it  
30 isn't, one of the most important reasons it isn't is that





1 the economy is supposed, in an ideal fashion, to operate  
2 competitively. The fact is that some people have much  
3 more control over flow of income in their direction than  
4 other people and therefore there are differences in  
5 the reasons for high incomes, difference in the reasons  
6 for low incomes. Some of these differences are justifiable  
7 on economic grounds and some are more doubtful. If  
8 we were able to make the economy more competitive by  
9 policies other than taxation, as well as possibly by  
10 some taxation policy then we would have a better or more  
11 meaningful consumer demand on which to best operate our  
12 economy. I think it is useful to identify these dis-  
13 tinctions so that other policies can be designed to  
14 dovetail with the fiscal policies.

15 ACTING CHAIRMAN: This is all in the interest  
16 of a more fluid and flexible economy.

17 DR. ENGLISH: Yes.

18 ACTING CHAIRMAN: In which presumably fiscal  
19 policy could operate more effectively.

20 DR. ENGLISH: That is right. Naturally one  
21 of my interests is in the field of commercial policies.  
22 It is really a very major factor in making the economy  
23 more flexible, the question of when the economy is  
24 approaching maturity.

25 ACTING CHAIRMAN: Would you go as far as to say  
26 that the tax system should be focussed on areas  
27 within the economy for this purpose, areas of inflexibility.

28 DR. ENGLISH: I think insofar as the tax system  
29 can be used in this way, yes. One of the conclusions  
30 which was useful to draw in my opinion as an economist,





1 and I am not speaking for the Consumers Association  
2 because they haven't considered this, is that tax in-  
3 centives are very often suggested as a means of enabling  
4 the economy to adjust.

5 -----





ND 1 DR. ENGLISH: As an economist I feel that this  
2 is risky unless you have a clear way of indicating to  
3 the economy in what direction you want it to adjust.

4 If you use tax incentives in conjunction with  
5 very liberal commercial policies, in other words, use  
6 this as a means of enabling the economy to adjust in  
7 a direction where it will certainly be more competitive,  
8 because it will have to be, then tax incentives as a  
9 transitional device have a good deal to be said for  
10 them, but if they are used as a means of buttressing  
11 up an economy which ~~has~~ rigidity and nothing else is  
12 being done to reduce that rigidity, then tax incentives  
13 are likely to be a substitute for desirable action  
14 rather than an aid to it.

15 ACTING CHAIRMAN: Those are fairly explosive  
16 words you are speaking translated into actual situations.

17 DR. ENGLISH: In another place I expressed the  
18 same views, on what kind of tax incentives I would trust.  
19 In this context, I think it may not be appropriate as  
20 a representative of the Consumers Association. I don't  
21 think they would necessarily disagree with the general  
22 position.

23 ACTING CHAIRMAN: Mrs. Plumtre would prefer we  
24 leave this discussion at this point.

25 MRS. PLUMTRE: I certainly think this is one  
26 thing I am able to understand.

27 COMMISSIONER GRANT: There is one question  
28 that I think would be interesting to discuss for a  
29 moment with you Dr. English and it is a conflict which  
30 apparently arises between what is set forth in the brief





1 and the last answer to the questionnaire in which I  
2 believe you told us that a number indicated that under  
3 the general economy that they would favour a reduction  
4 in spending. The brief on Page 18 sets forth the fact  
5 that the government, since 1957, has been pointing out that  
6 it has a high rate of unemployment, which ranges be-  
7 tween 5 and 8 per cent and on Page 19 of the brief  
8 declares itself, I believe, in favour of increasing ex-  
9 penditures rather than reducing expenditures to meet  
10 a recession.

11 DR. ENGLISH: Where was it referred to as  
12 increasing expenditure?

13 COMMISSIONER GRANT: Page 19, if I am reading  
14 it correctly, paragraph 36:

15 "That it is, however, important to  
16 recognize that the impact of the  
17 deficit will depend in part on the  
18 reaction in the private economy.  
19 In a period of depressed activity  
20 the propensity to spend in the  
21 private economy may be so reduced  
22 that a deficit created by reducing  
23 expenditures and revenues may not  
24 be as stimulating as one created  
25 by raising expenditures."

26 DR. ENGLISH: I think this is not a recommenda-  
27 tion for raising them. In the period of severe depres-  
28 sion, I think it would be because you would need to  
29 take quite strong measures. In a period such as the  
30 present, I think you would find agreement of opinion





1 in the direction of what the American government is  
2 attempting to introduce, major tax cuts because the  
3 feeling is the economy needs a moderate stimulus and  
4 this can be achieved through tax reduction. This is a  
5 general statement I think simply about a situation such  
6 as the present when the stimulus required is moderate  
7 and a tax cut would be generally acceptable.

8 COMMISSIONER GRANT: The American proposal does  
9 not carry with it reduced expenditure on the part of  
10 the administration?

11 DR. ENGLISH: No.

12 COMMISSIONER GRANT: The members of the Consumers  
13 Association who answered that would seem to be thinking  
14 along the lines that if we have reduced government  
15 expenditures we could then have a reduction in taxes wh-  
16 ich would have the effect of perhaps putting more of the  
17 consumer's dollar into the purchase of goods and  
18 savings which you would make in taxes. Now does the  
19 brief itself subscribe to that?

20 DR. ENGLISH: I think that one could say they  
21 are not running counter but certainly in the brief the  
22 position is taken which implies that the answers are  
23 not as simple as the questionnaire suggests. For one  
24 thing, we should like to ask the people who replied to  
25 the questionnaire what expenditure they would want the  
26 rates cut on, and I think the assumption is made through-  
27 out the brief that it is extremely difficult to get  
28 people to agree on reducing expenditures and, therefore,  
29 in a sense the brief is being somewhat more realistic  
30 than some of those people who were replying to the





1 questionnaire. On the other hand, the people who replied  
2 to the questionnaire pointed to the Glasco Report and  
3 say here is an official, an expert body which does feel  
4 some reduction could take place. I don't know how much  
5 a reduction in expenditure the Glasco Report would  
6 involve. There is some possibility for that kind of  
7 move. We go along with that because if these things  
8 can be justified on a larger base, they certainly are  
9 in order. I don't think that what is said here really  
10 is intended to agree completely with that position that  
11 expenditures should be cut willy nilly.

12 ACTING CHAIRMAN: Without putting yourself in  
13 a position of supporting inefficiency.

14 DR. ENGLISH: That is right.

15 ACTING CHAIRMAN: You are not in favour of  
16 just an across-the-board government reduction in expend-  
17 iture?

18 DR. ENGLISH: No, the net effect of stimulating  
19 the economy by reducing both expenditure and tax is very  
20 doubtful.

21 ACTING CHAIRMAN: I take it the Commission has  
22 finished its inquiries. Is there anything further you  
23 wish to say?

24 DR. ENGLISH: No, I think not. I appreciate  
25 the spirit in which you have received this.

26 ACTING CHAIRMAN: The Chairman has already  
27 adequately thanked you; only add my personal word of  
28 pleasure at this morning's discussion. Thank you again  
29 for coming.

30 DR. ENGLISH: Thank you.





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ACTING CHAIRMAN: Mr. Secretary is this all?

THE SECRETARY: That is all for this morning

Mr. Perry. 10:30 tomorrow morning will be the first presentation.

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